DOING IT RIGHT FOR MEMBERS

Annual Report 2014

Good governance.
Excellent member care.
A strong investment strategy.

Municipal Pension Plan is a Canadian success story.
Learn why inside.

Municipal Pension Plan

Contributing today for a secure tomorrow

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TRUSTEE MESSAGE

Doing it Right: Now & Always

Welcome to the *2014 Annual Report*. This was a year of significant progress, and we have a good story to report: your Plan is stronger and more sustainable than last year. The Plan is doing it right, and the following demonstrates this:

- A stronger asset base to deliver on the pension promise
- A continuous commitment to sustainable governance renewal
- The realization of benefits from sustainable plan redesign and stronger Plan Partner relationships

Another example of how the Plan is doing it right is through board governance. The Board is made up of individuals with diverse backgrounds who bring exceptional knowledge and skills to the Plan. To support the Board, we have developed a robust governance framework with a full suite of policies to guide decision-making. We have committed ongoing resources to support Trustees' education and build their competencies to oversee the largest Pension Plan in BC. Above all, our Trustees are motivated to serve because they believe in our mandate—to deliver on the pension promise.

The Board achieved many things in 2014, and there are several that stand out for me. First, the Board created a new executive director position as a result of a recent governance initiative. Judith Payne assumed this role in August 2014, and she has 15 years of experience in policy and plan administration management with the BC Pension Corporation. She knows the Municipal Pension Plan and how to lead transformation initiatives. The Board is confident Judith will support it in not only continuing to do the right things but doing them continuously and at the leading edge.

It is crucial that retirees of the future have access to COLA as today's retirees do on a similar basis.

One of the priorities for the Board in 2014 was to develop a method for providing cost-of-living adjustments (COLA) on retired member pensions that are sustainable for the long term. If changes to the current COLA method were not made, it was forecast that the funding for these adjustments to retiree pensions would become depleted within the next 20 years, after which the only COLA that could be granted would be limited to what's available from the previous year's Inflation Adjustment Account (IAA) contributions. The Board has a duty to govern the Plan in a way that is fair and equitable to all plan members, so it is crucial that retirees of the future have access to COLA as today's retirees do on a similar basis. To address this, the Board will implement a cap on COLA starting in 2016. We want to thank the Plan Partners for assisting the Board to increase the level of maximum COLA to 1.95 per cent. This is higher than what the Board first thought would be offered.

This is how the cap works: if the change in the Consumer Price Index is two per cent in the previous September, under normal circumstances the Plan would pay 1.95 per cent. If the change in the Consumer Price Index is one per cent, the Plan would pay 1 per cent. The amount of the cap will be reviewed through the regular valuation process and adjusted, if necessary, to keep it sustainable in the long term. This change balances the needs of today's retired members and the retired members of the future, and will help to make COLA sustainable for the long-term benefit of all members.

The rate stabilization account will provide a level of assurance going forward for both members formulating their retirement plans and employers for their budgeting purposes.

The Board also worked with the Plan Partners on an amendment to the Joint Trust Agreement (JTA) to create a rate stabilization account. If the 2015 actuarial valuation determines the Plan has surplus assets, up to $2.5 billion will be transferred to a rate stabilization account to help offset any future contribution rate increases that may be required from plan members and employers. The JTA amendment also sets out that, if the surplus is greater than $2.5 billion, the excess will be directed to the IAA up to the amount required to fund COLA for retired members. The rate stabilization account will provide a level of assurance going forward for both members formulating their retirement plans and employers for their budgeting purposes.

This year, the Plan's assets broke through the $40 billion mark—assets at the outset of the Joint Trust Agreement in 2001 were $15.1 billion.

Our approach to governance and investment has proven to be effective. The Municipal Pension Plan is the sixth largest plan in the country, and we have seen very good recent growth. Investment returns continued to be strong in 2014 at a rate of 11.3 per cent, building on our strong performance in recent years—15.1 per cent in 2013 and 10.3 per cent in 2012. This year, the Plan's assets broke through the $40 billion mark compared to $15.1 billion at the outset of the JTA in 2001. Investment plays a significant role in building pensions for our members—approximately 75 per cent of the cost of pensions paid by the Plan comes from investment returns. The Board sets the investment objectives and provides direction to the British Columbia Investment Management Corporation (bcIMC).

The Plan is a true Canadian success story.

Looking ahead, I believe one of the most significant things we can do is promote the Plan's relevance to individuals, families and the province of British Columbia. The debate over public sector pensions will not subside. Internally, we will always be reviewing the relevance of our plan design to members and their beneficiaries. But, we must be part of the larger discussions on Canada Pension Plan and other reforms. We were one of the first plans to invest in an independent third-party verification of our contribution to the British Columbia and Canadian economies, something we highlighted in the *2013 Annual Report* and through documents available on the Plan's StraightTalk website. We must continue to do this to show how much value the Municipal Pension Plan brings to the table. The Plan is a true Canadian success story, and one I am very proud to have been part of.

It has been a pleasure and a privilege to serve on the Municipal Pension Board of Trustees since its inception in 2001.

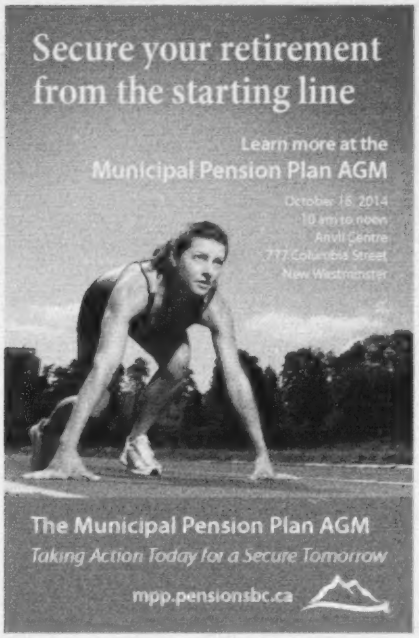
This was a special year for me because it marked the completion of my third term as Board Chair. It has been a pleasure and a privilege to serve on the Municipal Pension Board of Trustees since its inception in 2001. I am grateful for the support I received from the Board Secretariat, the staff at BC Pension Corporation and bcIMC for their ongoing dedication and commitment to this outstanding Pension Plan.

In the last 13 years, I have seen huge strides in the management of the Plan, and I am confident it is in good hands. I would like to thank my board colleagues for their vision and commitment—it has been a great honour to work with you on behalf of the unions, employers and members of the Municipal Pension Plan.

Richard Taylor, 2014 Board Chair

THE MUNICIPAL PENSION PLAN IS

Doing it Right

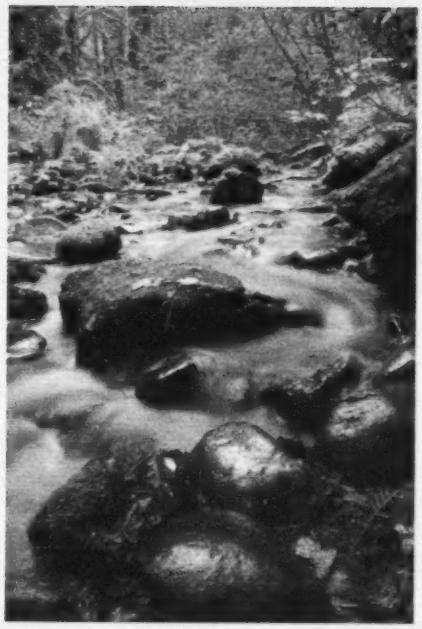

Secure your retirement from the starting line
Learn more at the Municipal Pension Plan AGM
October 16, 2014
10 am to noon
Anvil Centre
777 Columbia Street
New Westminster
The Municipal Pension Plan AGM
Taking Action Today for a Secure Tomorrow
mpp.pensionsbc.ca

Good pension plan governance

- MPP takes a long-term view to managing the Plan.
- MPP actively monitors the investment strategy and all elements of the Plan.
- The Plan is an important part of retirement income security. Effective January 1, 2016, MPP has put in place a sustainable method for cost-of-living adjustments. This method will strengthen the long-term health of the Inflation Adjustment Account for cost-of-living adjustments by setting a fixed maximum level that can be provided—a cap of 1.95 per cent. The level of the cap will be reviewed at each triennial valuation.
- The MPP Board of Trustees launched a comprehensive post-retirement group benefits review on October 30, 2014, approving the scope of the review and the criteria to be used. Recent requests for changes to coverage will be considered as part of the review. At the conclusion of the review, the Benefits Committee will recommend to the Board that it confirm or vary extended health care and/or dental subsidy schedules, coverage, limits, deductibles and co-insurance.

Excellent care for members & employers

- The BC Pension Corporation continues to maintain its solid service value as a low-cost service provider.
- MPP members have access to multi-channel options:
  - Online registration through My Account has grown over 20 per cent over the last year.
  - Telephone enquiries continue to grow as members seek more information about their pension and the options available to them.
  - Member satisfaction surveys continue to report favourably on the service the Plan provides to members.
  - MPP is building a social media presence to connect with our members: @MyBCMPP on Twitter and MunicipalPensionPlan on YouTube.
- Ninety-six per cent of pension seminar attendees felt the seminars gave them a better understanding about the options available to them at retirement.
- In February 2014, MPP launched the monthly employer newsletter, which received positive responses.



Consistently well-managed investments with bcIMC

- MPP Trustees have a solid relationship with bcIMC and are committed to investing responsibly in the best financial interests of members.
- The Board recognizes that strong corporate governance and responsible corporate behaviour pertaining to environmental and social factors will generally contribute to the better long-term financial performance of a company. This is set out in our Statement of Investment Policies and Procedures.
- MPP and bcIMC are proud to be signatories to the Principles for Responsible Investment—a United Nations supported initiative with an international network of investors working together to put the six principles into practice.
- Investment returns from bcIMC are measured against widely used market benchmarks. In 8 of the last 10 years, the Plan's returns earned by bcIMC have exceeded the benchmark. In 2014, the Plan achieved a return of 11.3 per cent against a benchmark of 9.8 per cent.

Plan Investments

Plan portfolio overview

Municipal Pension Board of Trustees is responsible for overseeing an investment portfolio of approximately $40 billion for the benefit of Plan members. The Board's primary financial objective is the long-term health of the Plan, which depends in part on earning sufficient investment returns over a longer time horizon.

The Board's investment strategy and framework for managing plan assets are outlined in the Statement of Investment Policies and Procedures. In approving the long-term asset mix policy, the Board recognizes that diversification of investments is a key principle in managing risk. Investments are held in a range of asset types (e.g., bonds, mortgages, equities, real estate, and infrastructure and private placements) across industry sectors and global markets. The Board oversees management of plan assets through bcIMC.

Investments highlights

The plan investment portfolio earned 11.3 per cent net of fees for 2014, exceeding a 9.8 per cent market benchmark and adding over $553 million of excess return. As a result, the market value of the investments increased from $36 billion to $40 billion.

The market value of the investments increased from $36 billion to $40 billion.

While continued slow economic growth and deflation fears in Europe were a drag on financial markets in 2014, the economic recovery in the U.S. gained steam and more than offset European sluggishness. Central banks keeping their interest rates low further boosted market sentiment. The plummet in oil prices towards the end of 2014 caused a great deal of market turbulence, particularly in oil-exporting countries like Canada; however, by the end of 2014, equity markets proved resilient and performed very well.

All plan asset classes did very well in 2014. Combined public equities achieved strong returns of 13.1 per cent in 2014, while fixed-income returns, benefiting from decreasing long-term interest rates, were 8.2 per cent. Investments in Canadian real estate solidly contributed to plan returns at 8.1 per cent.

Analysis—understanding the shift in the Plan's investment portfolio

The Plan's long-term policy asset mix continues to reflect an increased focus on real assets such as land, buildings, regulated utilities and renewable resources. These assets, primarily transacted in private markets, are tangible, physical investments ideally suited for the long-term financial objectives of pension plans. They typically provide reliable cash flows, appreciate in value and protect against inflation, while mitigating short-term volatility in public markets. These investments also allow for more direct asset management, which helps bcIMC determine strategic direction and create long-term value for the Plan.

In 2012, the Board established a goal to shift about 10 per cent of plan assets into real/private assets from public market investments (e.g., stocks and bonds), recognizing it would take several years for bcIMC to implement. While competition for these types of assets is a challenge, bcIMC is committed to fulfilling the Plan's private market asset allocations as soon as possible. bcIMC anticipates that, as developing economies continue to advance, the increased need for infrastructure in those regions will advance, and it plans to be ready to invest in these assets.

Responsible investing

The Plan and bcIMC believe that responsible investing is an integral part of investment. Companies that do a good job of managing environmental, social and governance (ESG) matters have less risk and perform better financially over the longer term. Assessing and managing risk over the long term—the cornerstone of responsible investing—is a fundamental way for bcIMC to meet its mandate to grow and protect the value of the Plan's fund.

The Board and bcIMC are signatories to the United Nations–supported Principles for Responsible Investment.

The Board and bcIMC are signatories to the United Nations–supported Principles for Responsible Investment (PRI), an international network of investors who share the goal of integrating environmental, social and governance factors into the processes and activities of institutional investors.

In the most recent 2014 survey conducted by PRI, it compared the Plan's progress in implementing responsible investing principles to some peer groups, both Canadian and international. Regardless of the peer group used, the Plan ranked well overall and outperformed in almost all parts of the survey. To learn more about the Plan's survey submission, read the Plan's 2013/14 Responsible Investing Transparency Report.

With the support of the Board, bcIMC proactively engages companies to raise awareness of ESG factors that may emerge over time and affect the cash flow and long-term value of the portfolio. Through constructive dialogue, bcIMC encourages companies to be transparent and report on their risks; adopt good governance practices, and standards of safety and employee welfare; and be responsible in their operations by effectively managing relationships with suppliers, customers and communities.

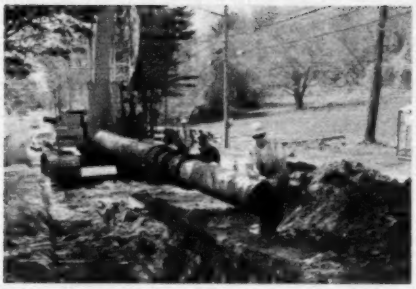
With the support of the Board, bcIMC proactively engages companies to raise awareness of ESG factors that may emerge over time.

Enhancing governance practices and standards also occurs through collaboration with other investors and organizations such as Canadian Coalition for Good Governance, Carbon Disclosure Project and Investor Network on Climate Change. Plan members can visit bcIMC online to learn more about its responsible investment practices.

Managing costs

Managing investment costs is important to the Board, and bcIMC's fees continue to be extremely competitive. bcIMC operates on a cost recovery, not-for-profit basis, and its large asset size provides access to substantial economies of scale. The Board focuses on generating net returns so that a greater proportion of investment return will pass through to the Plan, contributing to its long-term sustainability.

bcIMC investment profiles



Source: Aquarion Water Company

AQUARION WATER COMPANY

Aquarion Water Company is among the 10 largest investor-owned water utilities in the U.S. Since bcIMC first invested in this company with a consortium of investors in 2007, Aquarion has maintained an active growth strategy, acquiring numerous regional water systems and continuing to improve water quality and network reliability. It has received awards for being a well-operated water utility and environmental steward, and is consistently highly rated for customer service.

Source: Jeremy Andrews, wikipedia.org

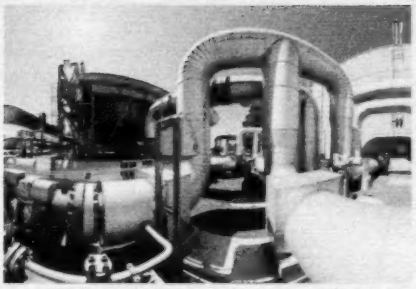
INTRANSIT BC LIMITED PARTNERSHIP

bcIMC and our partners, SNC-Lavalin and Caisse de dépôt et placement de Québec, invested in InTransit BC Limited Partnership in 2005 to jointly design, build, operate, maintain and partially finance the Canada Line through a 35-year concession agreement with Canada Line Rapid Transit Inc. and the South Coast British Columbia Transportation Authority. The Canada Line is a fully automated commuter transit system that connects downtown Vancouver, central Richmond and Vancouver International Airport. It is one of the largest complex infrastructure projects ever undertaken in Canada as a public-private-partnership.

Source: Island Timberlands

ISLAND TIMBERLANDS

Island Timberlands LP is a private business focused on the sustainable management of high quality timber and other forest products from coastal British Columbia for a broad customer base. Island Timberlands' private lands are certified with the Sustainable Forestry Initiative®, and all operations are compliant with the ISO 14001 Environmental Management Standard and the BC Forest Safety Council's SAFE certification. The company owns 628,000 acres of freehold timberlands including 32,000 acres of higher and better use real estate properties. bcIMC first invested in Island Timberlands in 2005.



Source: Open Grid Europe GmbH

OPEN GRID EUROPE GMBH

bcIMC and a group of long-term investors completed the €3.2 billion acquisition of Open Grid Europe (OGE) in 2012. As the operator of the longest regulated supra-regional natural gas transmission network in Germany, OGE is responsible for about 70 per cent of the country's total national shipping volume. With assets that include 27 compressor stations and 12,000 kilometres of pipeline, OGE serves 450 national and international customers. OGE transports natural gas from Russia and Northern/Western Europe to customers throughout Europe. It is a core asset and an integral part of the European economy. Maintaining high standards of environmental management, occupational health and safety, and technical safety are key priorities. bcIMC is OGE's largest shareholder.

Source: Puget Sound Energy

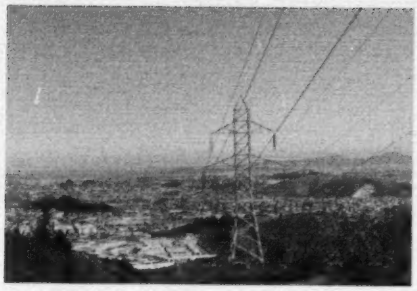
PUGET ENERGY

bcIMC has held an equity interest in Puget Energy since 2009 along with two other large Canadian institutional investors and an infrastructure fund investor. Puget Energy's core business is Puget Sound Energy (PSE), a regulated utility which provides electric and natural gas service to the Puget Sound region of Western Washington. As Washington State's largest utility, PSE serves more than 1 million electric and 770,000 natural gas customers in a service area spanning over 6,000 square miles. PSE is also the Pacific Northwest's largest utility producer of renewable energy as an owner and operator of three wind farms.

Source: TimberWest Forest Corp.

TIMBERWEST FOREST CORPORATION

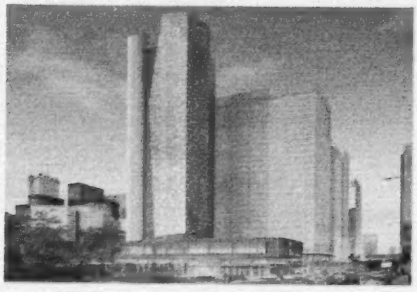
TimberWest Forest Corp. is uniquely positioned as western Canada's largest private timberland company. TimberWest is a leader in sustainable forest management and is committed to Vancouver Island communities. The company complies with ISO 14001 and the Sustainable Forestry Initiative®, and provides approximately 1,000 direct and 2,000 indirect jobs to workers on Vancouver Island. bcIMC first invested in TimberWest in 2009 and took the company private in partnership with the Public Sector Pension Investment Board in 2011.



Source: Transelec Chile

TRANSELEC CHILE

Transelec Chile is the largest electricity transmission company in Chile, operating a network that carries electricity to 98 per cent of the Chilean population. Transelec owns and operates the majority of the transmission lines and substations of the two largest interconnected systems in Chile, with a network covering a distance of approximately 9,270 kilometres of simple and double circuit transmission lines connected to 56 substations. bcIMC partnered with a group of long-term investors to acquire Transelec in 2006.



Source: IBI Group

DELTA TORONTO

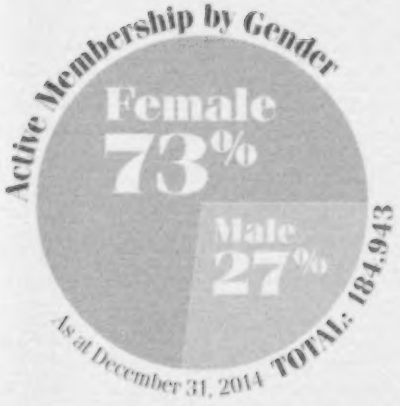
Delta Toronto—the 567-room (45-storey) "4 star" Delta flagship hotel—officially opened in February 2015. It has the latest in sustainable features, including heat recovery ventilation, low flow fixtures, smartcards controlling room lighting and air based on suite occupancy, green roofs throughout the building and a unique green space with forested walkways and gardens.

Source: Musson Cattell Mackey

745 THURLOW

In Vancouver, at 745 Thurlow, a 400,000 square feet, 25-storey office tower is under construction with a 2015 expected completion. This building is well located in Vancouver's financial district near popular Robson Street. It is designed to a LEED "Core and Shell" Gold standard, which is a green building rating system to address sustainable design for new core and shell construction. At reporting the building is 90 per cent leased.

Plan Details



A look at our membership

The Municipal Pension Plan had 184,943 active members who worked for 931 employers as at December 31, 2014. The total membership is 299,167.

There are three types of members in the Plan:

Active Those currently contributing, on a leave of absence or receiving benefits from an approved long-term disability plan. There are 184,943 active plan members, a 1.6 per cent increase from 2013.

Inactive Those who terminated their employment but left contributions in the Plan. They may or may not be eligible for a pension in the future. There are 34,442 inactive plan members, a 2.4 per cent increase from 2013.

Retired Those receiving a pension, including a survivor or disability pension. There are 79,782 retired plan members, a 6.0 per cent increase from 2013.

Plan contributions

Plan members and employers both pay contributions to fund future pension benefits.

Contribution rates are set by the Board and are based on a valuation conducted by the Plan's independent actuary. The valuation occurs every three years. This ensures there is enough money in the Pension Fund to pay all members' basic pensions for many years into the future.

If a contribution rate increase is necessary, the Joint Trust Agreement requires that all contribution rate increases be split equally between members and employers.

Membership in the Plan is divided into member groups, some with their own accrual rates and/or earliest retirement ages. Employers are assigned contribution rates annually based on their member group classification and demographics of their respective employee populations.

An individual employer's blended rate can increase or decrease from year to year, depending on employee age, gender and salary.

Member groups & contribution rates

Group 1 Males

Group 2 Male and female police officers and firefighters, other than members of Group 5. These members have the same contribution rates as groups 1, 3 and 4, but an earlier normal retirement age due to working in public safety.

Group 3 A group for females closed on April 1, 1971. Members of this group elected, at the time of closing, to remain in Group 3 and continue contributions to the Plan until they terminate plan membership or retire.

Group 4 Females

At the end of 2014, members in groups 1, 2, 3 and 4 were contributing 8.5 per cent of salary up to and including the year's maximum pensionable earnings (YMPE) ($52,500 in 2014), and 10.0 per cent of salary above that amount. The YMPE is set annually by the federal government.

Group 5 A member group established to provide an enhanced pension benefit for members employed as police officers and firefighters. Members in Group 5 have a higher benefit accrual rate of 2.33 per cent; this means their pension benefit will accumulate faster. This is valuable because police officers and firefighters have an earlier retirement age. Group 5 participation is limited to police officers and firefighters.

At the end of 2014, members in Group 5 were contributing 10.44 per cent of salary up to and including the YMPE and 11.94 per cent above that amount.

Plan benefits

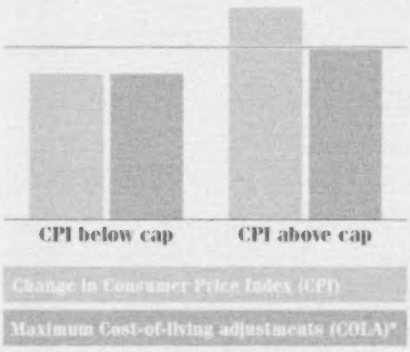
Plan benefits are defined by the Plan Rules made under the authority of the Joint Trust Agreement.

Basic pension

The basic pension benefit is based on the years of pensionable service a member has accrued in the Plan and the member's highest average salary (highest 60 months, not necessarily the last 60 months).

The Plan provides entitlement to a pension benefit after two years of contributory service, as well as survivor and disability benefits.

Sustainable COLA in practice



* The Municipal Pension Board of Trustees retains discretion to grant annual COLA.

Cost-of-living adjustments

A cost-of-living adjustment is a non-guaranteed supplement to the basic lifetime pension. This adjustment cannot exceed the annual increase in the Consumer Price Index (CPI), nor can it exceed the amount of money in the Plan's Inflation Adjustment Account.

The Board of Trustees annually considers all relevant factors to determine if COLA will be granted.

On January 1, 2014, retired members received a COLA equal to the full increase in the CPI (measured from September to September of the preceding year), an increase of 1.1 per cent.

The Board monitors the Plan's ability to grant any future COLA. Once granted, COLA becomes part of the basic lifetime pension.

In 2014, Trustees announced a new sustainable COLA methodology starting January 1, 2016. See the Trustee message on page 1 for details.

2012 actuarial valuation results

Under the rules of the provincial *Pension Benefits Standards Act* and the Municipal Plan's Joint Trust Agreement, the Board is required to hire an independent actuary (a financial professional) to conduct a review of the Plan's funded position every three years. The actuary examines the Plan's finances, membership, and various relevant economic and demographic factors. Specifically, the actuary reviews:

- assets, or money the Plan has or is expected to receive, and
- liabilities, or money the Plan is paying out or expects to pay out.

Once the review is complete, the actuary presents the findings to the Board in a valuation report. This tells the Board if there is a funding shortfall or surplus adequate to maintain existing benefits for the future.

Completed in 2013, the 2012 valuation report determined:

- There was an unfunded liability of $1,370 million.
- The Plan was 96.5 per cent funded.

To address the shortfall in funds, the Board approved an increase in the total contribution rate of 1.4 per cent of salary.

The rate increase is shared equally by employers and members, and became effective July 1, 2014.

The valuation results as at December 31, 2015, will be announced fall 2016.

Plan Rules & Policy Changes

Joint Trust Agreement amendment helps to stabilize contribution rates and improve funding for sustainable COLA

Effective November 12, 2014

The Plan Partners signed a Joint Trust Agreement amendment effective November 12, 2014.

This amendment has two parts:

1. If the 2015 actuarial valuation results in a surplus of funds, the Plan will set up a contribution rate stabilization account. The first $2.5 billion in surplus funds will be transferred to the rate stabilization account. This is a benefit to members and employers, because the funds will be used to offset any contribution rate increases that may be required in the future.

   Any surplus assets in excess of $2.5 billion shall be allocated to the Inflation Adjustment Account, up to (but not exceeding) an amount to fund COLA based on the long-term inflation rate assumed in the 2015 valuation.

2. Effective January 1, 2019, member and employer contributions of 1.06 per cent of salary (currently used to pay for an unfunded liability identified as part of the 2003 actuarial valuation) will be reallocated from the Basic Account to the Inflation Adjustment Account. There will be no net change to contribution rates as a result of this amendment. However, it will be a benefit to working members because it provides additional funding to the Inflation Adjustment Account to support the long-term sustainability of COLA for all members in retirement. This amendment will be effective regardless of future valuation results.

Improvements to sustainable COLA trigger updates to the pension option factor tables

Effective January 1, 2015

The Joint Trust Agreement amendment to improve sustainable COLA for retirees affected the actuarial valuation assumptions used to value the pension option factor tables. These tables are used to provide members with pensions other than a single life pension (the normal pension provided by the Plan). Pension option factor tables are also used to convert lump sums (e.g., special agreement accounts) to a monthly pension benefit. Pensions beginning on or after January 1, 2015, have the new pension option factor tables applied to them. For more information, visit the plan website and read the Board Communiqué by searching for "2015 Pension Option Factor Tables Revised."

More flexibility for buying back service

Effective April 1, 2015

Subject to federal Income Tax Regulation limits, you may now be eligible to buy back service for an approved leave of absence (or period of reduced pay) taken while you were contributing to the Plan through another plan employer or registered pension plan. Contact the Plan for more information.

Amendments effective in 2014

The following plan rule amendments and policy changes were announced in the *2013 Report to Members* and *2013 Annual Report*, available as PDFs on the plan website in the Publications section.

- **Police and fire fighters: separate pension benefits** effective January 1, 2014
- **Contribution rate increase for members and employers** effective July 1, 2014
- **Changes to nominating beneficiaries** effective March 31, 2014

Who We Are

Your 2014 Trustees

Richard Taylor, Chair
Appointed by: Union of British Columbia Municipalities
Committee(s): Appeals Panel (Chair), Governance Committee, Plan Advocacy Coordinating Committee, Valuation Committee, member of Executive Forum
Board term: 2001–current

Harold Heyming, Vice Chair
Appointed by: BC Professional Fire Fighters Association and the BC Police Association
Committee(s): Appeals Panel, Governance Committee, Plan Advocacy Coordinating Committee, Valuation Committee, Interplan Trustee Education Committee, member of Executive Forum
Board term: 2004–current

PRIMARY TRUSTEES

Donisa Bernardo
Appointed by: Municipal Employees Pension Committee
Committee(s): Appeals Panel
Board term: 2001–current

Dennis Blatchford
Appointed by: Health Sciences Association of British Columbia
Committee(s): Benefits Committee
Board term: 2001–current

Hilary Brown
Appointed by: British Columbia Public School Employers' Association
Committee(s): Communications Committee, Investment Committee
Board term: 2012–current

Lucas Corwin
Appointed by: Province of British Columbia
Committee(s): Investment Committee
Board term: 2008–current

Brendan Dick
Appointed by: Hospital Employees' Union
Board term: 2003–2014

Debra Ducharme
Appointed by: British Columbia Nurses' Union
Committee(s): Benefits Committee (Chair), Governance Committee, Investment Committee
Board term: 2010–current

Robert Hobson
Appointed by: Union of British Columbia Municipalities
Committee(s): Benefits Committee, Governance Committee, Investment Committee (Chair)
Board term: 2006–current

Lyn Kocher
Appointed by: Health Employers Association of British Columbia
Committee(s): Valuation Committee (Chair), Governance Committee
Board term: 2001–current

Jane Lindstrom
Appointed by: Plan Employer Partners (Government and Union of British Columbia Municipalities)
Committee(s): Benefits Committee
Board term: 2014–current

Frank Leonard
Appointed by: Union of British Columbia Municipalities
Committee(s): Benefits Committee, Valuation Committee
Board term: 2002–current

Steven M. Polak
Appointed by: Municipal Employees Pension Committee
Committee(s): Interplan Audit Committee, Investment Committee
Board term: 2001–current

Patti Price
Appointed by: Canadian Union of Public Employees, British Columbia
Committee(s): Benefits Committee, Valuation Committee
Board term: 2006–current

Mary Procter
Appointed by: Health Employers Association of British Columbia
Committee(s): Valuation Committee
Board term: 2009–current

Brian Schramm
Appointed by: Council of Joint Organiztions and Unions
Committee(s): Investment Committee
Board term: 2014–current

Angie Sorrell
Appointed by: British Columbia Provincial Government
Committee(s): Governance Committee (Chair), Plan Advocacy Coordinating Committee (Chair), Interplan Trustee Education Committee
Board term: 2008–current

ALTERNATE TRUSTEES

Ron Amos
Appointed by: British Columbia Public School Employers' Association
Committee(s): Benefits Committee
Board term: 2015–current

Bella Brown
Appointed by: British Columbia Nurses' Union
Committee(s): Communications Committee, Valuation Committee
Board term: 2012–current

Tony Collins
Appointed by: Health Employers Association of British Columbia
Committee(s): Appeals Panel
Board term: 2013–current

Trevor Davies
Appointed by: Canadian Union of Public Employees, British Columbia
Committee(s): Benefits Committee
Board term: 2014–current

John G. Johnston
Appointed by: Health Employers Association of British Columbia
Committee(s): Communications Committee, Interplan Website Review Committee
Board term: 2003–current

Kelly Knox
Appointed by: Hospital Employees' Union
Committee(s): Benefits Committee
Board term: 2003–current

Diana Lokken
Appointed by: Plan Employer Partners (Government and Union of British Columbia Municipalities)
Committee(s): Investment Committee
Board term: 2013–current

Gary MacIsaac
Appointed by: Union of British Columbia Municipalities
Board term: 2014–current

Rebecca Maurer
Appointed by: Health Sciences Association of British Columbia
Committee(s): Communications Committee (Chair), Governance Committee, Plan Advocacy Coordinating Committee
Board term: 2011–current

Brian Northam
Appointed by: Council of Joint Unions and Organizations
Committee(s): Communications Committee, Investment Committee, Interplan Website Review Committee
Board term: 2001–current

Barbara Sinclair

Appointed by: Municipal Employees Pension Committee
Committee(s): Appeals Panel
Board term: 2012–current

Todd Sweet

Appointed by: British Columbia Police Association
Committee(s): Governance Committee, Valuation Committee
Board term: 2005–current

Philip Twyford

Appointed by: British Columbia Provincial Government
Committee(s): Benefits Committee, Valuation Committee
Board term: 2012–current

Hilary Woodward

Appointed by: British Columbia Provincial Government
Committee(s): Communications Committee, Appeals Panel, Interplan Audit Committee (Chair)
Board term: 2011–current

Gary Yee

Appointed by: Municipal Employees Pension Committee
Committee(s): Valuation Committee
Board term: 2014–current

2014 Board Attendance & Remuneration

for the year ended December 31, 2014

	Meetings		Remuneration		
Name	Attended/ possible[1]	Additional attended	Total paid[2]	By payee	Payee
Richard Taylor, Chair[3]	20/21	8	$ 24,795.00	$24,795.00	Richard Taylor
Harold Heyming, Vice Chair[3]	20/25	4	21,751.20	5,130.00	Harold Heyming
				16,621.20	BCPFFA
Ron Amos	8/9		6,498.00	3,078.00	Ron Amos
				3,420.00	School District #71 - Comox Valley
Donisa Bernardo	6/6	1	7,011.00	7,011.00	Hospital Employees' Union
Dennis Blatchford	9/10	1	2,736.00	342.00	Dennis Blatchford
				2,394.00	Health Sciences Association of BC
Bella Brown	6/14		1,881.00	855.00	Bella Brown
				1,026.00	BC Nurses' Union
Hilary Brown	12/16		5,297.00	5,297.00	BC Public School Employers' Association
Tony Collins	3/6		855.00	855.00	Health Employers Association of BC
Lucas Corwin	10/11		3,420.00	3,420.00	Ministry of Finance
Trevor Davies	8/9		2,907.00	2,907.00	CUPE BC Division
Brendan Dick	5/6	4	4,265.00	4,265.00	Hospital Employees' Union
Debra Ducharme	15/17		14,678.00	14,678.00	BC Nurses' Union
Robert Hobson	23/23		15,533.00	15,533.00	Robert Hobson
John Johnston	9/12		8,105.50	851.00	John Johnston
				7,254.50	Interior Health Authority
Kelly Knox	8/10		4,104.00	684.00	Kelly Knox
				3,420.00	Hospital Employees' Union
Lyn Kocher	16/20	1	5,557.50	5,557.50	Health Employers Association of BC
Frank Leonard	10/13		5,044.50	5,044.50	Frank Leonard
Jane Lindstrom	8/9	1	5,899.50	1,368.00	Jane Lindstrom
				4,531.50	Northern Health Authority
Diana Lokken	9/10	1	9,657.50	9,657.50	Diana Lokken
Gary MacIsaac	4/6		3,762.00	3,762.00	Union of BC Municipalities
Rebecca Maurer	23/23	2	8,037.00	8,037.00	Health Sciences Association of BC
Brian Northam	15/17		14,995.25	14,995.25	Brian Northam
Steven Polak	14/15	1	11,457.00	11,457.00	Steven Polak
Patti Price	7/13		6,327.00	2,223.00	Patti Price
				4,104.00	CUPE BC Division
Mary Procter	8/9	1	3,591.00	3,591.00	Providence Health Care
Brian Schramm	10/10	5	7,353.00	7,353.00	BCGEU
Barbara Sinclair	5/6	1	3,933.00	3,933.00	Barbara Sinclair
Angie Sorrell	17/18	1	7,524.00	7,524.00	Public Sector Employers' Council Secretariat
Todd Sweet	15/17		10,003.50	10,003.50	Todd Sweet
Philip Twyford	10/13		3,931.00	3,931.00	Minister of Finance
Hilary Woodward	10/12		3,334.50	3,334.50	Legislative Assembly of British Columbia
Gary Yee	8/8	1	9,405.00	9,405.00	CUPE BC Regional Office
Total remuneration paid[2]			**$243,648.95**		
Average meeting attendance	85%				

1 Comparison of the number of meetings attended vs. the number of meetings scheduled. The number of meetings scheduled varies by Trustee due to committee membership.

2 Total Remuneration Paid includes attendance at board and committee meetings, educational events, pension conferences, and preparation and travel time for these meeting/events.

3 Includes board chair annual stipend of $6,840 and vice-chair annual stipend of $5,130.

Agents & service providers

British Columbia Investment Management Corporation is one of Canada's largest investment managers. It administers $117 billion across all major asset classes, with global exposure.

British Columbia Pension Corporation is among Canada's largest pension administrators, annually collecting more than $3.1 billion in contributions and paying more than $3.6 billion in benefits. It provides plan information to members and employers, manages contributions and member records, pays pension benefits and provides policy, financial and communications services to the Board.

Eckler Ltd. serves as the actuary for the Plan. The actuary conducts an actuarial valuation on the Plan's funding every three years and supports the Board in its decision-making, as appropriate. The next valuation will be presented to the Board fall 2016.

Pacific Blue Cross administers retired plan members' access to group extended health and dental benefit plans available to retired plan members.

KPMG LLP provides external audit services for the Plan.

Shawn Hatch, legal advisor, is the legal counsel for the Plan.

GRAPHS, CHARTS & TABLES

Investment Highlights

Investment Performance (market value rates of return)
year ended December 31

(All values %)	Rate of return	Performance benchmarks	
Annual rates			
2014	11.3	9.8	
2013	15.1	12.8	
2012	10.3	8.2	
2011	3.3	1.6	
2010	9.8	8.8	
Five-year annualized rates			
2014	9.9	8.2	
2013	9.8	8.8	
Ten-year annualized rates			
2014	7.7	6.7	
2013	7.5	6.8	
2014 annual rate by investment category			
Short-term	2.2	0.9	FTSE TMX Canada 91 day T-Bill
Money market	1.2	0.9	FTSE TMX Canada 91 day T-Bill
Bonds	2.9	2.8	FTSE TMX Canada Gov ST Index
Nominal bonds	9.8	8.8	FTSE TMX Canada Bond Universe Index
Universe bonds	9.8	8.8	FTSE TMX Canada Bond Universe Index
Global government bonds	9.2	9.5	JP Morgan Global Investment Grade GBI
Real return bonds	12.7	13.2	FTSE TMX Canada Real Return Bond Overall Index
Mortgages	6.0	3.7	Combined Benchmark
Fixed-term	5.1	4.1	FTSE TMX Canada ST Bonds + 1%
Construction	5.1	2.0	FTSE TMX Canada 1 Year T-Bills + 1%
Mezzanine	16.7	3.5	FTSE TMX Canada 1 Year T-Bills + 2.5%
Canadian equities	10.6	10.6	S&P/TSX Composite Index
Active	12.4	10.6	S&P/TSX Capped Composite
Active small cap	6.9	(2.3)	S&P/TSX Small Cap
Indexed	10.8	10.6	S&P/TSX Composite
Enhanced	10.2	10.6	S&P/TSX Capped Composite
Global developed equities	14.8	14.6	MSCI World ex-Canada Net
Global	16.0	14.6	MSCI World ex-Canada Net
U.S. active	17.1	23.4	Russell 1000
U.S. small cap	13.0	14.3	Russell 2000
U.S. indexed	23.8	23.9	S&P 500 Total Return Index
U.S. social indexed	22.6	22.9	MSCI KLD 400 Social Index
U.S. enhanced	24.0	23.9	S&P 500
Asian indexed	6.1	6.1	MSCI Pacific Net
Asian active	12.3	12.1	MSCI All Country Pacific ex-Japan Net
Europe	2.1	2.3	MSCI Europe Net Index
Emerging markets	12.3	6.6	MSCI Emerging Markets Net Index
Domestic real estate	8.1	5.5	CPI + 4%
Private placements*	25.5	33.0	MSCI All Country World Net Index plus 2%
Infrastructure and renewable resources (IRR)*	12.7	8.0	Nominal 8.0%

Performance benchmark indices abbreviations

CPI = Consumer Price Index
FTSE TMX = FTSE TMX Global Debt Capital Markets (formerly PC-Bond/DEX)
GBI = Government Bond Index
MSCI = Morgan Stanley Capital International
S&P = Standard & Poor's
S&P/TSX = Standard & Poor's/ Toronto Stock Exchange Composite or Capped Composite

(Source of annual rates: British Columbia Investment Management Corporation)

* The rates of return for private placements and IRR reflect the final December 31, 2013, internal rates of return .

Five-year Financial Summary ($ millions)
year ended December 31

	2014	2013	2012	2011	2010
Increase in assets					
Investment income	$ 4,131	$ 4,737	$ 2,945	$ 924	$ 2,425
Contributions					
Members	797	739	709	652	592
Employers	916	851	812	755	687
Transfers from other plans	44	14	19	22	14
Total increase in assets	5,888	6,341	4,485	2,353	3,718
Decrease in assets					
Benefit payments	1,460	1,380	1,299	1,187	1,057
Transfers to other plans	14	18	14	19	17
Retired member group benefits	74	68	65	59	57
Investment and administration costs*	102	88	82	68	60
Total decrease in assets	1,650	1,554	1,460	1,333	1,191
Increase in net assets	4,238	4,787	3,025	1,020	2,527
Net assets available for benefits at beginning of year	35,849	31,062	28,037	27,017	24,490
Net assets available for benefits at end of year	$40,087	$35,849	$31,062	$28,037	$27,017
Investment and administration costs as a percentage of net assets (%)					
Investment management*	0.21	0.21	0.22	0.20	0.17
Benefits administation	0.09	0.10	0.11	0.09	0.09

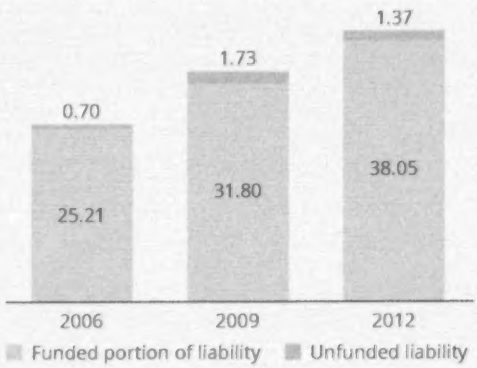
* External investment management costs incurred in the investment pooled funds by wholly owned corporations of $18.3 million (2013—$20.2 million; 2012—$21.8 million; 2011—$14.0 million; 2010—$12.0 million) reduce investment income and are not included in investment and administration costs. They are included in investment management costs as a percentage of net assets.

Actuarial Valuation Results ($ millions)
as at December 31

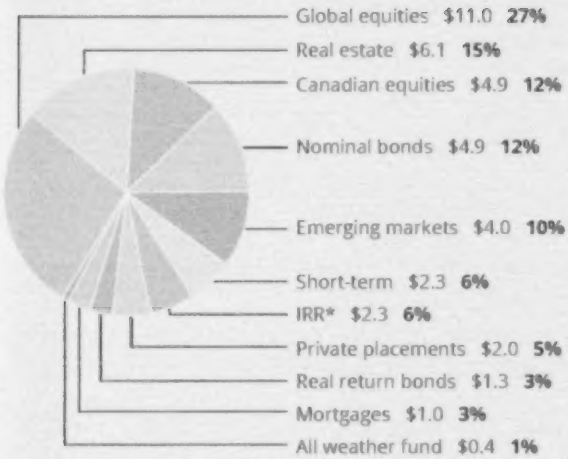
The actuarial valuation is conducted every three years as a way to assess the financial health of the plan to help ensure the plan remains financially sound.

	2012	2009	2006
Total assets	$38,048	$31,798	$25,211
Total liabilities	39,418	33,526	25,910
Unfunded liability	$ (1,370)	$ (1,728)	$ (699)
Funding ratio (assets/liabilities)	0.97	0.95	0.97

Funding of the Total Basic Benefit Liability
($ billions)
as at December 31

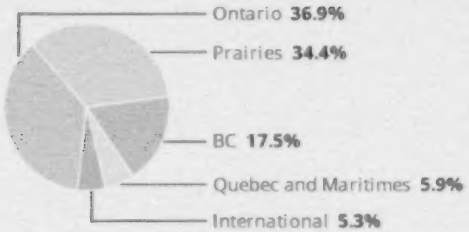


Investment Holdings ($ billions)
as at December 31, 2014



* Infrastructure and renewable resources

Real Estate by Location
as at December 31, 2014



Market Value Asset Mix
as at December 31, 2014

(All values %)	Approved range	Target asset mix market value	Actual asset mix market value	Rate of return	Performance benchmark
Short-term	0–10	2	5.7	2.2	0.9
Mortgages	0–11	6	2.5	6.0	3.7
Nominal bonds	5–20	12	12.2	9.8	8.8
Real return bonds	0–10	5	3.2	12.7	13.2
Fixed income	**15–35**	**25**	**23.6**	**8.2**	**7.8**
Canadian equities	6–20	13	12.3	10.6	10.6
Global developed equities	10–35	17	27.3	14.8	14.6
Emerging markets equities	3–15	10	10.0	12.3	6.6
Equity	**30–60**	**40**	**49.6**	**13.1**	**11.8**
Real estate	**10–25**	**18**	**15.2**	**8.1**	**5.5**
Private placements[1]	**1–13**	**7**	**4.9**	**25.5**[1]	**33.0**[1]
IRR[1,2]	**2–16**	**10**	**5.7**	**12.7**[1]	**8.0**[1]
All weather[3]	**0–5**	**—**	**1.0**	**—**[3]	**—**[3]
Total basic asset mix		**100**	**100.0**	**11.3**	**9.8**

1 The rates of return for private placements and IRR reflect the final December 31, 2013, internal rates of return.
2 Infrastructure and renewable resources.
3 An annual rate of return is not available for the All Weather fund as it was funded after January 1, 2014.

Top 25 Company Holdings[1] ($ millions)
as at December 31, 2014

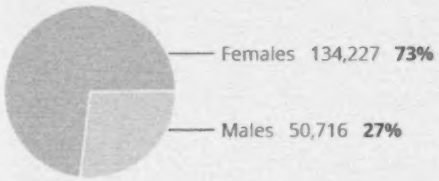
	Total public equity exposure—worldwide			Regional exposure		
Company	% of portfolio	% of public equity	Total exposure	Canadian equities	Global equities	Emerging markets equities
Chinese State Controlled Companies[2]	1.0	1.9	389	—	79	310
Royal Bank of Canada	0.8	1.6	311	308	3	—
The Toronto-Dominion Bank	0.7	1.4	280	277	3	—
Canadian National Railway Company	0.5	1.0	198	180	18	—
Bank of Nova Scotia	0.5	1.0	194	192	2	—
Suncor Energy Incorporated	0.4	0.9	172	151	21	—
Taiwan Semiconductor Manufacturing	0.4	0.8	163	—	60	103
Samsung Electronics Company Limited	0.4	0.7	148	—	50	98
Enbridge Incorporated	0.4	0.7	148	130	18	—
Apple Incorporated	0.4	0.7	142	—	142	—
Aberdeen Asset Management Plc	0.3	0.7	139	—	68	71
Valeant Pharmaceuticals International	0.3	0.7	136	134	2	—
Brookfield Asset Management Incorporated	0.3	0.7	129	108	21	—
Google Incorporated	0.3	0.6	125	—	125	—
Bank of Montreal	0.3	0.6	124	122	2	—
TransCanada Corporation	0.3	0.6	120	104	16	—
Manulife Financial Corporation	0.3	0.6	119	119	—	—
Exxon Mobil Corporation	0.3	0.6	117	22	95	—
Canadian Natural Resources Limited	0.3	0.6	111	111	—	—
Microsoft Corporation	0.3	0.5	107	—	107	—
Housing Development Finance Corporation Limited	0.3	0.5	106	—	17	89
Canadian Imperial Bank of Commerce	0.2	0.5	100	99	1	—
BCE Incorporated	0.2	0.5	95	95	—	—
British American Tobacco Plc	0.2	0.5	91	—	27	64
AIA Group Limited	0.2	0.4	91	—	63	28
Total Top 25	**9.6**	**19.3**	**3,855**	**2,152**	**940**	**763**
Total Public Equity			**19,940**			
Total Investment Portfolio			**40,211**			

1 Company regional exposures are based on pool fund asset class designations per Statement of Investment Policy and Procedures.
2 Company exposures are based on the ultimate parent company exposure regardless of where the security is listed or traded. As a result the above exposure report shows Chinese State Controlled Companies as one of the top exposures because the ultimate parent company for many companies in China is the Chinese government.

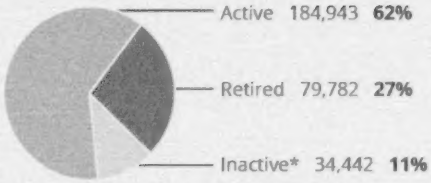
GRAPHS, CHARTS & TABLES

Membership

Active Membership by Gender
(total: 184,943)
as at December 31, 2014

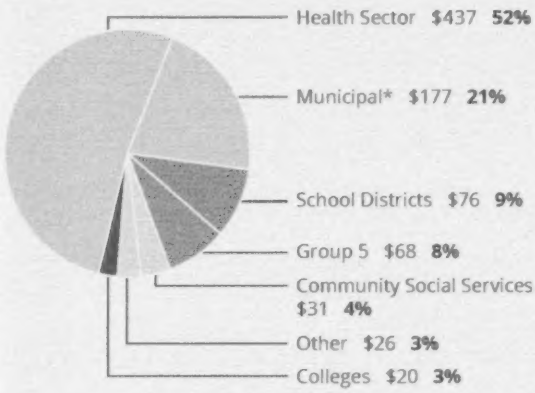


Membership Profile
(total: 299,167)
as at December 31, 2014



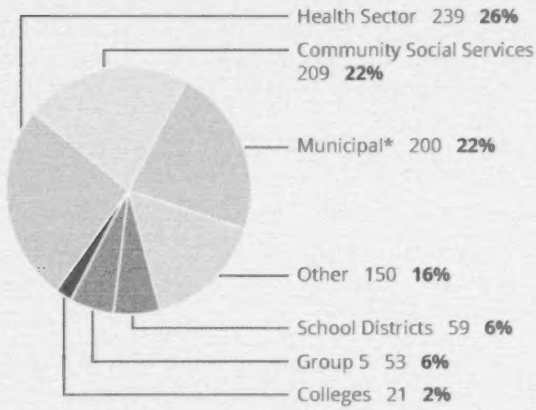
* Members no longer employed but with money in the plan.

Total Regular Employer Contributions by Sector
($ millions)
for the year ended December 31, 2014



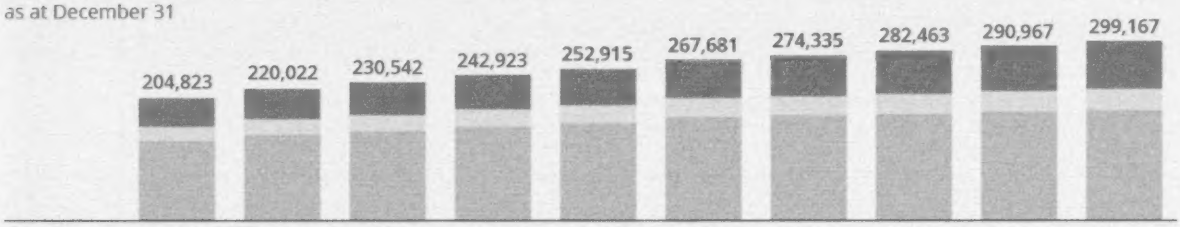
* Cities, Districts, Towns, Villages and Regional Districts

Employers (total: 931)
as at December 31, 2014



* Cities, Districts, Towns, Villages and Regional Districts

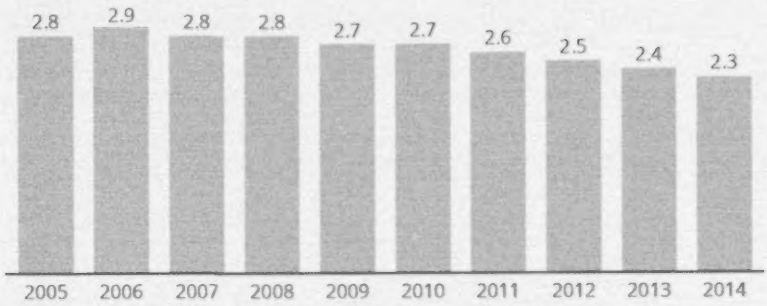
Number of Members
as at December 31



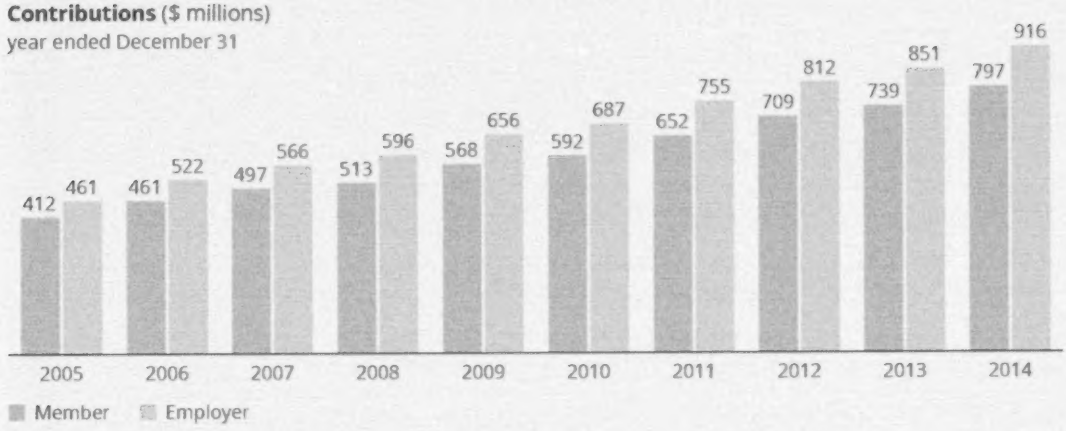
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Retired	47,651	50,666	53,879	56,969	59,817	63,403	66,969	71,056	75,284	79,782
Inactive*	22,796	24,882	26,529	28,560	30,229	31,217	31,376	32,669	33,630	34,442
Active	134,376	144,474	150,134	157,394	162,869	173,061	175,990	178,738	182,053	184,943

* Members no longer employed but with money in the plan.

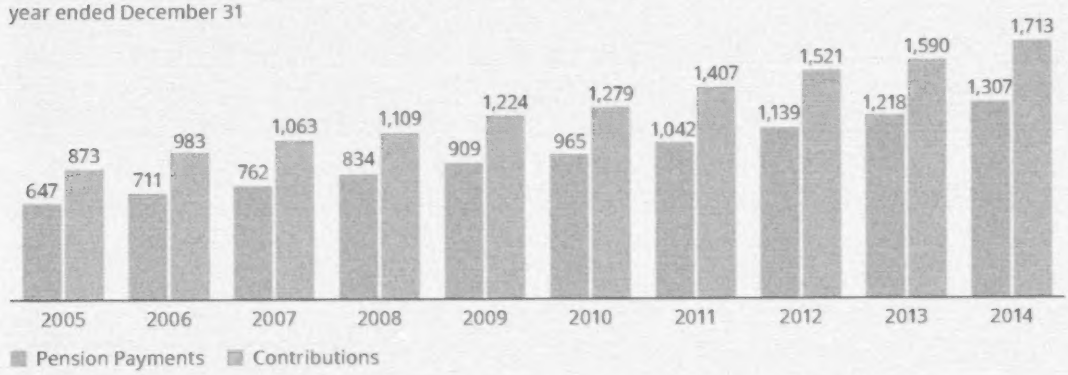
Ratio of Active to Retired Members
as at December 31



Contributions ($ millions)
year ended December 31



Pension Payments Compared to Contributions ($ millions)
year ended December 31



New Pension Profile

year ended December 31, 2014

Years of service	All new pensions (age at retirement)					Average salary	Average annual pension	Median annual pension	Average present value of pensions	Total present value of all new pensions
	< 55	55 < 60	60 < 65	≥ 65	Total					($ Millions)
< 10	16	449	487	487	1,439	$ 55,700	$ 5,700	$ 4,500	$ 81,000	$ 116.6
10 < 15	9	322	404	243	978	58,400	12,500	11,300	179,000	175.1
15 < 20	6	274	422	196	898	59,900	18,200	16,900	267,000	239.8
20 < 25	16	284	426	215	941	61,700	23,800	21,700	356,000	335.0
25 < 30	36	227	321	110	694	70,700	34,200	31,400	525,000	364.4
30 < 35	29	340	174	70	613	72,000	42,400	38,800	659,000	404.0
≥ 35	5	143	113	43	304	75,400	46,400	43,400	722,000	219.5
Total	**117**	**2,039**	**2,347**	**1,364**	**5,867**	**$ 62,200**	**$ 21,000**	**$ 16,200**	**$ 312,000**	**$1,854.4**

NRA*	Average years of service				
60	26	29	29	13	28
65	19	19	18	15	18
All	**24**	**19**	**18**	**15**	**18**

NRA*	Average age at retirement
60	56
65	61
All	**61**

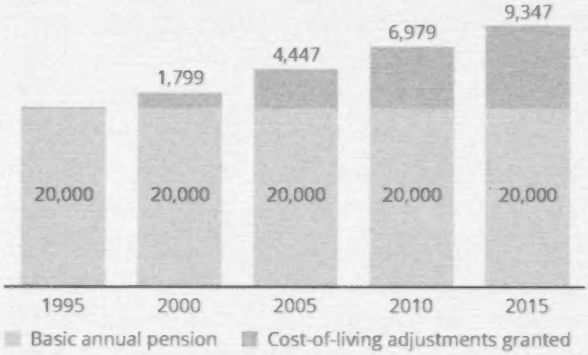
* Normal retirement age

Annual Pensions in Pay

as at December 31, 2014

Average	$16,967
Median	$12,090

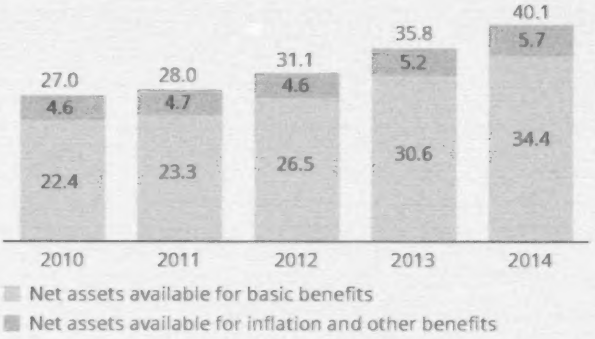
Basic Pensions plus Cost-of-Living Adjustments*



*This is an illustration of the value of COLA historically.

Net Assets Available for Benefits ($ billions)

as at December 31



Financial Statements

PENSION CORPORATION
We make it easy

Executive Offices

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MUNICIPAL PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Municipal Pension Plan (Plan) were prepared by the British Columbia Pension Corporation (Corporation), the administrative agent for the Municipal Pension Board of Trustees (Board) for the Plan. The Board is responsible for having annual financial statements prepared in accordance with Canadian generally accepted accounting principles for pension plans. The Corporation prepares the financial statements on the Board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgments and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles for pension plans in Canada. Other financial information contained in the Municipal Pension Plan Annual Report is consistent with these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Ltd. has been appointed the independent consulting actuary to the Plan by the Board. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the Plan by the Board. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the independent Auditor's Report attached to these financial statements.

Trevor Fedyna, CPA CGA, C. Dir
Vice President Corporate Services
and Chief Financial Officer
British Columbia Pension Corporation

Bruce Nicol, CPA CA
Director, Finance
British Columbia Pension Corporation

June 24, 2015

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Members of the Municipal Pension Plan

We have audited the accompanying financial statements of Municipal Pension Plan, which comprise the statement of financial position as at December 31, 2014, the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Municipal Pension Plan as at December 31, 2014, and the changes in its net assets available for benefits and the changes in its accrued pension benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Other Matter

The financial statements of the Municipal Pension Plan as at and for the year ended December 31, 2013 were audited by another auditor who expressed an unmodified opinion on those statements on June 25, 2014.

KPMG LLP

Chartered Accountants

June 24, 2015
Vancouver, Canada

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF FINANCIAL POSITION
($ Millions)

As at December 31	Note	2014	2013
Assets			
Investments	3	$ 40,211	$ 36,024
Receivables			
Members' contributions		31	28
Employers' contributions		34	31
Due from sale of investments		13	-
		78	59
Prepaid expenses		7	9
Total Assets		40,296	36,092
Liabilities			
Payable for purchase of investments		168	222
Accounts payable and accrued expenses		27	20
Taxes payable		14	1
Total Liabilities		209	243
Net Assets Available for Benefits		$ 40,087	$ 35,849
Accrued Pension Benefits			
Accrued pension benefits - basic	4a	$ 30,293	$ 28,459
Accrued pension benefits - non-guaranteed	4b	5,731	5,196
Retirement annuity account	4c	371	362
Accrued Pension Benefits		36,395	34,017
Surplus			
Funding Surplus	5a	1,722	534
Measurement differences between funding and accounting positions	5a	1,970	1,298
Surplus		3,692	1,832
Accrued Pension Benefits and Surplus		$ 40,087	$ 35,849

The accompanying notes are an integral part of the financial statements including:

- Commitments (Note 12)
- Financial Instruments (Note 13)
- Contingencies (Note 14)
- Capital Disclosures (Note 15)

Approved by the Municipal Pension Board of Trustees:

Steven Polak
Trustee,
Municipal Pension Board of Trustees

Hilary Woodward, CPA CA
Trustee,
Municipal Pension Board of Trustees

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Millions)

For the year ended December 31	Note	Basic Account	Inflation Adjustment Account	Retirement Annuity Account	Supplemental Benefits Account	Totals 2014	Totals 2013
Increase in Assets							
Investment income	6	$ 3,510	$ 582	$ 39	$ -	$ 4,131	$ 4,737
Contributions	7						
Members'		696	96	1	4	797	739
Employers'		787	51	1	77	916	851
		1,483	147	2	81	1,713	1,590
Transfers from other plans		34	10	-	-	44	14
Total Increase in Assets		5,027	739	41	81	5,888	6,341
Decrease in Assets							
Benefits	8	1,381	59	14	6	1,460	1,380
Transfers to other plans		9	5	-	-	14	18
Retired member group benefits	9	-	-	-	74	74	68
Investment and Administration costs	10	92	9	-	1	102	88
Total Decrease in Assets		1,482	73	14	81	1,650	1,554
Increase in Net Assets Before Transfers		3,545	666	27	-	4,238	4,787
Account transfers	11	149	(131)	(18)	-	-	-
Increase in Net Assets		3,694	535	9	-	4,238	4,787
Net Assets available for Benefits Beginning of Year		30,291	5,196	362	-	35,849	31,062
Net Assets available for Benefits End of Year		$ 33,985	$ 5,731	$ 371	$ -	$ 40,087	$ 35,849

Supplemental Benefits Account (Note 9)

The accompanying notes are an integral part of the financial statements.

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS
($ Millions)

For the year ended December 31	Note	2014	2013
Increase in Accrued Pension Benefits			
Interest on accrued pension benefits		$ 1,854	$ 1,741
Benefits accrued		1,293	1,223
Changes in actuarial assumptions	4a	-	372
Account transfers		148	148
Increase in Accrued Pension Benefits		3,295	3,484
Decrease in Accrued Pension Benefits			
Experience gains	4a	-	956
Benefits paid		1,461	1,373
Decrease in Accrued Pension Benefits		1,461	2,329
Net increase in Accrued Pension Benefits		1,834	1,155
Accrued Basic Pension Benefits, Beginning of Year		28,459	27,304
Accrued Basic Pension Benefits, End of Year	4a	30,293	28,459
Non-guaranteed Pension Benefits			
Increase in non-guaranteed benefits accrued	4b	535	612
Accrued Non-guaranteed Pension Benefits, Beginning of Year		5,196	4,584
Accrued Non-guaranteed Pension Benefits, End of Year	4b	5,731	5,196
Retirement Annuity Account			
Increase in retirement annuity account	4c	9	30
Retirement Annuity Account, Beginning of Year		362	332
Retirement Annuity Account, End of Year	4c	371	362
Total Accrued Pension Benefits, End of Year		$ 36,395	$ 34,017

The accompanying notes are an integral part of the financial statements.

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN

The following brief description of the Municipal Pension Plan (Plan) is a summary and is provided for general information only. For more information please refer to the Joint Trust Agreement (Agreement) and the Plan rules (pension plan rules).

a) General

The Plan is a jointly trusteed pension plan continued in agreement with the Public Sector Pension Plans Act, *S.B.C 1999*, s.44 (Act). The Act enabled the establishment of the Agreement. Joint trusteeship was established on April 5, 2001. The partners to the Agreement are the Municipal Employees' Pension Committee, as the member partner, and the provincial government of British Columbia and the Union of British Columbia Municipalities, as the employer partners (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Municipal Pension Board of Trustees (Board) and provides the authority for the Board to make the pension plan rules.

The Plan is registered with the Superintendent of Pensions which administers and enforces the Pension Benefits Standards Act (PBSA). The PBSA governs employment pension plans that have active, inactive and retired members primarily based in British Columbia.

Membership in the Plan is open to all eligible employees of a municipality, school district, college, health service organization, police and fire fighters, and many other eligible employers as designated by the Board.

b) Roles and Responsibilities

Partners
The Partners and appointing authorities representing the Plan members and Plan employers are responsible for appointing the sixteen trustees and sixteen alternate trustees representing Plan members and Plan employers. The Partners have responsibility for resolving trustee disputes and, if certain conditions are met, for directing amendments to the pension plan rules.

Board
The Board is fully responsible for the management of the Plan, including investment of the assets and administration of the Plan. The Board may amend the pension plan rules as long as changes can be funded by Plan surpluses or are cost-neutral to the Plan (subject to transitional funding provisions in Note 5a). Unless required to ensure compliance with regulatory enactments applicable to the Plan, pension plan rule changes that result in contribution rate increases can only be initiated by the Partners. The Chair and Vice Chair are appointed by the trustees.

British Columbia Pension Corporation (Pension Corporation)
The Pension Corporation provides benefit administration services as an agent of the Board. The Board appoints two members to the eight member board of directors of the Pension Corporation.

British Columbia Investment Management Corporation (bcIMC)
bcIMC provides investment management services as an agent of the Board. The Board appoints one member to the seven member board of directors of bcIMC.

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

c) Funding

Contributions and investment earnings fund plan benefits. Contributions are made by active members and employers of the Plan. The determination of the value of the benefits and required contributions is based on periodic actuarial valuations for funding purposes (Note 5a).

The Board's funding policy is intended to secure the pension benefit obligation and achieve long-term stability in contribution rates for both employers and members.

d) Contributions

The following member and employer contributions apply to the majority of members, excluding a limited group with higher contribution rates required to fund the cost of their benefits.

Basic Account
Members contributed to the Basic Account 7.50% (6.80% to June 30, 2014) of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) (2014: $52,500; 2013: $51,100) and 9.00% (8.30% to June 30, 2014) of salaries over the YMPE, less amounts allocated to the Supplemental Benefits Account (Notes 5a, 7 and 9).

Employers contributed to the Basic Account at varying rates, depending on the mix of employees in the group rate classifications specified by the Plan, less amounts allocated to the Supplemental Benefits Account (Notes 5a, 7 and 9).

Inflation Adjustment Account and Supplemental Benefits Account
Members contributed 1% of salaries to the Inflation Adjustment Account (IAA). Employers contributed 1% of salaries to the IAA, less amounts allocated to the Supplemental Benefits Account (Notes 5b, 7 and 9).

Retirement Annuity Account
Some employers have special agreements with members by which additional contributions are made to increase members' pension benefits. These contributions are credited to the Retirement Annuity Account. Depending on benefit eligibility the accumulated monies at retirement are used to fund the purchase of additional pension benefits (Note 11) or are paid out as a lump sum benefit.

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

e) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);
- at age 60, with at least 2 years contributory service (age 55 for certain groups); or
- at age 55 or older, with age plus years of service totaling 90 or more (age 50 or older and age plus service equaling 80 or more for certain groups).

Other retiring members have a reduction formula applied to their pensions.

The defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.3% of pensionable earnings up to the YMPE and 2% of pensionable earnings over the YMPE for each year of pensionable service (to a maximum of 35 years). Pensionable earnings are based on the member's highest five-year average annual salary (HAS).

The Plan also provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.7% of the lesser of YMPE or the HAS for each year of pensionable service.

Future cost-of-living adjustments are not guaranteed. These adjustments are granted at the discretion of the Board and may not exceed the annual increase in the Canada Consumer Price Index (CPI) as at the previous September 30, subject to the availability of funds in the IAA (Notes 5b and 11). Any cost-of-living adjustment the Board grants is applied in January. The Board annually considers relevant factors to determine if an adjustment will be granted.

At January 1, 2015, retired members will receive a cost-of-living adjustment of 2.0% (2014: 1.1%).

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

f) Termination and Portability Benefits

A terminating member, who is eligible for a pension but has not reached the earliest retirement age, may choose:

- a deferred pension; or
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future re-employment with a Plan employer, or if under age 60 with less than two years of contributory service (age 55 for certain groups), may choose a refund of contributions with interest.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer certain pension rights.

g) Other Benefits

Disability and survivor benefits are also available under the Plan. A disability pension is available to a member under age 60 (under age 55 for certain members) who becomes totally disabled as defined by the Plan, has at least two or more years of contributory service, is not eligible to receive benefits from an approved long-term group disability plan and meets other eligibility requirements. The pension is calculated using a member's years of pensionable service to the date of the disability retirement and HAS. Disability pensions continue until normal retirement or until the member is able to return to work (Note 8). A death benefit may be available to a surviving spouse or designated beneficiary upon the death of an active member. Depending on eligibility requirements, the benefit may be paid in the form of a survivor pension or lump-sum payment (Note 8).

Supplemental benefits (Note 9) may also be funded from the Supplemental Benefits Account.

h) Tax Registration

The Plan is a Registered Pension Plan (RPP) as defined in the Income Tax Act (Canada) (Tax Act) (registration number 0359158), except for any supplemental benefits (Note 9) which are funded in addition to the RPP. The Plan is not subject to income taxes, but is subject to indirect taxes including British Columbia provincial sales tax (PST) and Canadian federal goods and services tax (GST). The Plan receives a 33% rebate of the GST paid.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles (GAAP) for pension plans, Part IV of the Chartered Professional Accountants of Canada (CPA Canada) handbook, and present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members, and independent of any associated retired member group benefit plans.

Accounting standards for private enterprises in Part II of the CPA Canada handbook have been chosen for accounting policies that do not relate to the Plan's investment portfolio or accrued pension benefits.

International Financial Reporting Standard (IFRS) 13, *Fair Value Measurement* which is applicable for annual periods beginning on or after January 1, 2013 was early adopted effective January 1, 2011. The application of this standard resulted in increased disclosure of the fair value of the Plan's investments.

b) Investments

Investments are stated at fair value and consist primarily of direct ownership in units of pooled investment portfolios. The fair value of these pooled investment portfolios is based on the net asset value of the respective pooled investment portfolio. In turn, the units of pooled investment portfolios are valued regularly based on the value of their underlying assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The calculation of fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. Fair value is best evidenced by a quoted closing market price, if one exists. Where public market prices or quotations are not available, fair values are derived using valuation methods such as discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate. The fair value of investments held directly by the Plan outside of pooled investment portfolios is determined in a similar manner to that described above. The fair value of derivative contracts is included in the fair value of pooled investment portfolios.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

c) Accrued Pension Benefits

Accrued pension benefits are determined based on an actuarial valuation prepared by an independent actuarial consulting firm. The valuation of accrued pension benefits is based on data extrapolated to the financial statement date. The valuation uses the projected benefit method prorated on service which incorporates the Board's estimate of various economic and non-economic assumptions. These assumptions are the same as those used in the determination of the actuarial position of the Plan for funding purposes.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Investment Income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder and income from directly held investments. The current period change in fair value includes realized and unrealized gains and losses which are included in investment income.

Within the pools, dividends are accrued on the ex-dividend date and interest is recognized on an accrual basis. Gains and losses on derivative contracts are recognized concurrently with changes in their fair values.

e) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing exchange rates on the year-end date. Income and expenses are translated into Canadian dollars at the prevailing exchange rates on the dates of the transactions. The realized and unrealized gains and losses arising from these translations are included within the current period change in fair value in investment income.

f) Use of Estimates

The preparation of financial statements, in conformity with Canadian GAAP for pension plans, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of increases and decreases in assets and liabilities during the period. Significant areas requiring the use of management estimates relate to the valuation of investments (primarily real estate, private placements and infrastructure and renewable resources) (Note 3 and 13) and the calculation of the accrued pension benefit of the Basic Account for accounting and funding purposes (Note 4 and 5). Actual results could differ materially from these estimates.

3. INVESTMENTS

	2014			2013		
	Basic Account	Inflation Adjustment Account	Total	Basic Account	Inflation Adjustment Account	Total
	($ Millions)			($ Millions)		
Short-term	$ 1,976	$ 332	$ 2,308	$ 1,094	$ 187	$ 1,281
Canadian Bonds	5,311	892	6,203	4,656	794	5,450
Canadian Equities	4,228	710	4,938	3,972	677	4,649
U.S. Equities	4,082	686	4,768	4,122	703	4,825
International Equities	9,104	1,530	10,634	8,205	1,399	9,604
Mortgages	871	147	1,018	845	144	989
Real Estate	5,219	876	6,095	4,645	792	5,437
Private Placements	1,678	282	1,960	1,480	252	1,732
Infrastructure & Renewable Resources	1,958	329	2,287	1,757	300	2,057
	$ 34,427	$ 5,784	$ 40,211	$ 30,776	$ 5,248	$ 36,024

Plan investments consist primarily of direct ownership in units of pooled investment portfolios managed by bcIMC. Each unit gives its holder a proportionate share in the net assets of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities. While the purpose of each fund is to invest in a particular type of investment, at any time, given the timing of trading activities, the fund may hold a certain amount of cash, short-term investments, accrued interest income and net accounts receivable or payable from outstanding sales and purchases of investments. The Plan directly holds Canadian real return bonds of $11 million (2013: $11 million) (Note 12), infrastructure and renewable resources investments of $359 million (2013: $290 million). The Plan also directly holds currency hedging of -$7 million (2013: -$6 million) for infrastructure and renewable resources, -$7 million (2013: -$4 million) for real estate, $8 million (2013: nil) for international equities and -$1 million (2013: nil) for private placements. The Basic and IAA portfolios are combined for investment management purposes.

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with maturities of 15 months or less and short-term bonds with one to five year terms. Canadian bonds consist of government and investment grade corporate bonds and debentures. Equities consist primarily of publicly traded shares, and, in the case of international equities, consist mainly of investments in the equity markets of Europe and Asia, as well as key emerging markets.

3. INVESTMENTS (continued)

Short-term investments are valued using current market yields. Canadian bonds are valued based on current market yields and in some cases quoted market prices. Canadian, U.S. and International equities are valued based on quoted market prices on the primary exchanges on which they are traded.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements consist mainly of Canadian and international long-term debt or equity investments made outside the structure of public markets (Note 12).

The mortgages are secured by real estate and are valued using current market yields. Real estate investments are valued quarterly by bcIMC's external real estate investment managers and, at least once every 10 to 18 months, by accredited independent appraisers to establish current market values. Private placements are valued annually based on audited financial statements from private placement external managers. Interim valuations for private placement investments are based on the annual valuations and adjusted for subsequent cash flows and changes in foreign exchange rates for investments outside Canada.

Infrastructure and renewable resources consists of privately-owned and managed infrastructure assets, timber, agriculture, and other renewable assets. Infrastructure and renewable resources investments were restructured from the private placements and real estate investments in fiscal 2013 and in 2014 and 2013 are valued as described above.

Derivative contracts consist of foreign exchange forward and future contracts and are held indirectly through various pooled investment portfolios as well as directly by the Plan to manage exposure to foreign currency risk. Foreign exchange contracts are reflected at fair value based on expected settlement amounts at the date of the Statement of Financial Position.

3. INVESTMENTS (continued)

The details of directly held foreign exchange forward contracts are as follows:

Year	Number of Contracts	Expiry	Notional Value	Receivable (payable)
			($ Millions)	
2014	13	January - March 2015	$ 648	$ 18
	1	April - June 2015	23	2
	3	July - September 2015	71	3
	3	October - December 2015	72	1
				24
	9	January - March 2015	400	(18)
	3	April - June 2015	54	(3)
	6	July - September 2015	129	(7)
	6	October - December 2015	189	(3)
				(31)
				$ (7)
			($ Millions)	
2013	1	July - September 2014	$ 6	$ -
	2	October - December 2014	35	-
				-
	2	January - March 2014	110	(4)
	1	April - June 2014	21	(2)
	2	July - September 2014	39	-
	6	October - December 2014	179	(5)
				(11)
				$ (11)

bcIMC established a collateral account for the Plan that is pledged as security for a future investment opportunity. As at December 31, 2014, $11 million (2013: $11 million) of Canadian real return bonds are being held as collateral for a letter of credit.

A separate investment asset portfolio is not held for Retirement Annuity Account assets. For administrative purposes, the Retirement Annuity Account assets are included in Basic Account Investments (2014: $371 million; 2013: $362 million).

4. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

a) Basic Account

In accordance with the Agreement and PBSA an actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in Note 5a. As part of the actuarial valuation, the actuary also calculates values, for accounting purposes, for Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes as described in Note 5a. The liability for accrued basic pension benefits at the valuation date is determined using the projected benefit method prorated on service.

The latest full actuarial valuation for accounting purposes was prepared as at December 31, 2012, by Eckler Ltd. This valuation calculated the liability for accrued basic pension benefits to be $26,720 million (2009: $22,385 million).

Between valuations, an estimate of the actuarial position is required. This estimate, called an extrapolation, has been made to December 31, 2014 and 2013, using the following long-term actuarial assumptions:

- annual investment return 6.50%
- annual salary escalation rate 3.75%

The extrapolation calculated the liability for accrued basic pension benefits to be $30,293 million (2013: $28,459 million).

The 2013 extrapolation reflected assumption changes made during the 2012 valuation that resulted in an increase in the 2012 accrued benefit liability of $372 million, primarily due to changes to post-retirement mortality assumptions. Further, the 2012 valuation accrued pension benefit liabilities were $956 million lower than anticipated by the 2012 extrapolation as a result of experience gains, primarily salary increases being lower than the actuarial assumption.

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals and changes in other factors, may vary significantly from the long-term assumptions used in the extrapolation. In the event of a major change to the Plan, a new valuation or review of the assumptions may be required.

The next full actuarial valuation will be as at December 31, 2015 which will be disclosed in the December 31, 2016 financial statements.

Actuarial liabilities are also affected by changes in the assumed investment return. Based on the actuarial valuation for accounting purposes completed as at December 31, 2012, a 4% reduction in the investment return assumption from 6.5% to 6.25% would have increased the December 31, 2012 accrued basic benefits of $26,720 million by 3%. Changes to assumptions included in the actuarial valuation are inter-related and the cumulative impact of changed assumptions may be offsetting.

4. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

b) Inflation Adjustment Account (IAA), Non-guaranteed Pension Benefits

No unfunded liability exists for the IAA since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. There is no minimum level of inflation adjustment required to be paid under the pension plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential inflation adjustments (Note 5b).The accrued non-guaranteed pension benefits obligation is therefore equal to the net assets available for benefits in the IAA, $5,731 million (2013: $5,196 million). The net increase of $535 million (2013: $612 million) in the IAA balance is comprised of employee and employer contributions and earnings on investments reduced by payments out of the account.

c) Retirement Annuity Account (RAA)

The RAA is comprised of additional contributions by employers and members under special agreements. If a member is entitled to, and chooses to purchase additional pension benefits at retirement, monies are transferred from the RAA to the Basic and the IAA to fund the additional benefits. No unfunded liability exists as the obligation to purchase a pension is limited to the amount of the available assets in the account. The accrued pension benefit for the RAA is therefore equal to the net assets available in the RAA, $371 million (2013: $362 million). The increase of $9 million (2013: increase $30 million) in the RAA balance is comprised of employee and employer contributions and earnings on investments reduced by payments out of the account.

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

The Basic Account is the account from which the defined basic benefits of the Plan are paid. In accordance with the Agreement and PBSA an actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and accrued pension benefits to the financial statement date and contributions and benefits for future service. The contribution requirements are calculated by the actuary using the entry age normal cost method (entry age method). This method produces the long-term rate of member and employer contributions sufficient to provide benefits for the average future new entrants to the Plan. This rate is then adjusted for the amortization of any actuarial funding surplus or unfunded actuarial liability.

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

The Basic Account is also the account from which any cost-of-living adjustments that have been granted to retired members are paid. Future cost-of-living adjustments are not guaranteed within the Plan provisions and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits (Note 5b). As cost-of-living adjustments are granted, the Basic Account receives from the IAA the present value funding necessary for the cost-of-living adjustments granted. Therefore, accrued basic pension benefits for valuation purposes includes the liability for all cost-of-living adjustments granted to the date of the valuation, but not for as yet unknown future cost-of-living adjustments.

Actuarial valuation

The latest full actuarial valuation for funding purposes was prepared as at December 31, 2012 by the independent actuary. Based on the entry age method the valuation indicated an unfunded liability of $1,370 million and the actuary determined that an increase in contribution rates was necessary for the Plan to maintain its required funding. Effective July 1, 2014, member and employer basic contribution rates each increased by 0.7% of salaries on average.

An estimate of the actuarial position of the Plan for funding purposes has been made to December 31, 2014 and 2013, using the following long-term actuarial assumptions:

- annual investment return 6.50%
- annual salary escalation rate 3.75%

This estimate, called an extrapolation, produced a surplus of $1,722 million at December 31, 2014 (2013: $ 534 million) as follows:

As at December 31	2014	2013
	($ Millions)	
Net assets available for basic pension benefits	$ 33,985	$ 30,291
Actuarial asset value adjustment	(3,398)	(2,960)
Smoothed assets for basic pension benefits	30,587	27,331
Present value of future contributions (entry-age method)	11,995	11,606
Present value of future amortization	3,113	3,295
Net actuarial assets for basic pension benefits	45,695	42,232
Liability for accrued and future basic pension benefits	(43,973)	(41,698)
Extrapolated entry-age method funding surplus	$ 1,722	$ 534

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Actuarial valuation (continued)

Changes in the extrapolated entry age method funding surplus between 2013 and 2014:

($ Millions)	
Entry-age method funding surplus at December 31, 2013	$ 534
Change in liability for accrued and future basic pension benefits	(2,275)
Change in actuarial assets for basic pension benefits	3,463
Entry-age method funding surplus at December 31, 2014	$ 1,722

Extrapolations may not be reliable indicators of the next valuation results, nor do they necessarily reflect the overall trend of results. Between valuations various factors, including actual wage increases, investment earnings and the incidence of retirements, and withdrawals may vary significantly from the long-term assumptions used in the extrapolation.

The next full actuarial valuation will be as at December 31, 2015, which will be disclosed in the December 31, 2016 financial statements.

Measurement differences between funding and accounting positions

The primary components of the measurement differences between the extrapolated entry age method funding surplus and the financial statement accounting surplus are as follows:

	2014	2013
	($ Millions)	
Entry-age method funding surplus	$ 1,722	$ 534
Actuarial asset value adjustment	3,398	2,960
Difference in actuarial methods - present value of future (entry age method) contributions	(11,995)	(11,606)
Difference in actuarial methods - present value of future amortization	(3,113)	(3,295)
Difference in actuarial methods - present value of future liabilities	13,680	13,239
Measurement differences between funding and accounting positions	1,970	1,298
Accounting Surplus	$ 3,692	$ 1,832

Actuarial asset value adjustment

For the purposes of determining the entry age method funding surplus, the actuarial value of net assets available for benefits is determined on an adjusted value basis which smoothes the difference between the actual investment return and the expected return based on a long-term real return rate over a five year period.

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Actuarial asset value adjustment (continued)

The funding policy requires that the smoothed value of the assets should be no more than 110% and no less than 90% of the market value of the assets. The unconstrained smoothed value of the assets at December 31, 2014 was 89.3%, accordingly the smoothed value was adjusted to be 90% of the market value of assets.

The following schedule indicates the year the components of the actuarial asset value adjustment will be recognized in the entry age method funding surplus. The amounts are based on that proportion of the total fund related to the Basic Account assets.

	Unamortized Gains	
	2014	2013
	($ Millions)	
2014	$ -	$ 873
2015	1,100	713
2016	1,217	830
2017	931	544
2018	384	-
Adjustment to 90% of Market Value in 2014	(234)	-
Total Adjustment	$ 3,398	$ 2,960

Difference in actuarial methods

While the accrued pension benefit liability for financial statement purposes uses the projected benefit method prorated on service, the pension liability for funding purposes uses an entry age funding method, where the present value of future normal cost contributions, present value of future amortization and present value of future service benefits are included in the determination of the funded status of the plan.

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Transitional period

The Agreement specifies a transitional period during which actuarial deficits will be amortized over 15 years, as required by the PBSA, and actuarial gains must be used to achieve the following objectives, in order of priority:

1. Eliminating any unfunded liability.
2. Simultaneously rebalancing member and employer contribution rates to the level of member contribution rates in effect at the time the Agreement was negotiated and providing specified benefit improvements.
3. Transfer funds in equal measure to a Contribution Rate Stabilization Reserve and to the IAA, to an aggregate total of $1 billion. The Contribution Rate Stabilization Reserve will be shared on an equal (50/50) basis in order to maintain or reduce future member and employer contribution rates.

If these transitional objectives are achieved, the Agreement describes the manners in which the Board can elect to apply surplus assets so as to achieve over time an equitable sharing of the benefits of the surplus assets between members and employers.

The Agreement describes that if at any time, an actuarial valuation indicates that increased basic contribution rates are required to fully fund the Plan on a going-concern basis, the increase must be shared equally by members and employers.

Contribution rate stabilization account

The Partners, in consultation with the Trustees, amended the Agreement in October 2014 to allow, notwithstanding the items specified in the transitional period, the establishment of a contribution rate stabilization account following the December 31, 2015 actuarial funding valuation. If the 2015 valuation identifies a surplus, the surplus amount, not to exceed $2.5 billion, will be retained in a contribution rate stabilization account. Any surplus in excess of $2.5 billion will be transferred to the IAA, provided that the transfer will not exceed the amount required to ensure that the Inflation Adjustment Account can support cost-of-living adjustments at 100% of the increase in the Consumer Price Index.

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA, since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. As cost-of-living adjustments are granted to retired members, full funding for that granted cost-of-living adjustment, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of cost-of-living adjustment required to be paid under the pension plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential cost-of-living adjustments.

The Board monitors the performance of the IAA and, at least annually, reviews a sensitivity analysis of the projected impact on the IAA of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefits costs. This sensitivity analysis assists the Board to identify scenarios, some years in advance of their possible occurrence, when the IAA assets may cease to grow and when the Plan may not be able to grant full cost-of-living adjustments for retired members.

The Board established a cap for cost-of-living adjustments for retired members to be applied effective January 1, 2016. Based on the 2012 actuarial valuation, the cap for January 1, 2016 has been set at 1.95%. The cap for sustainable cost-of-living adjustments will be reviewed following each subsequent triennial actuarial valuation.

c) Retirement Annuity Account (RAA)

No unfunded liability exists as the obligation to purchase a pension is limited to the amount of the available assets in the account. The accrued pension benefit for the RAA is therefore equal to the net assets available in the RAA.

6. INVESTMENT INCOME

	2014			2013		
	Current Period			Current Period		
	Income Allocation	Change In Fair Value	Total	Income Allocation	Change In Fair Value	Total
	($ Millions)					
Basic Account						
Short-term	$ 24	$ 5	$ 29	$ 8	$ 1	$ 9
Canadian Bonds	149	354	503	118	(305)	(187)
Canadian Equities	117	303	420	137	436	573
U.S. Equities	85	696	781	106	1,300	1,406
International Equities	305	584	889	242	1,123	1,365
Mortgages	51	2	53	62	(20)	42
Real Estate	124	283	407	270	72	342
Private Placements	328	118	446	304	73	377
Infrastructure & Renewable Resources	41	(20)	21	12	117	129
	1,224	2,325	3,549	1,259	2,797	4,056
Less Retirement Annuity Account Income Allocation			39			49
Basic Account			3,510			4,007
Inflation Adjustment Account						
Short-term	4	1	5	1	-	1
Canadian Bonds	25	59	84	20	(53)	(33)
Canadian Equities	19	51	70	23	75	98
U.S. Equities	14	113	127	18	221	239
International Equities	51	95	146	41	191	232
Mortgages	8	1	9	11	(4)	7
Real Estate	21	44	65	46	7	53
Private Placements	55	18	73	51	11	62
Infrastructure & Renewable Resources	7	(4)	3	2	20	22
	204	378	582	213	468	681
Total Investment Income	$ 1,428	$ 2,703	$ 4,131	$ 1,472	$ 3,265	$ 4,737

Investment income represents realized and unrealized pooled investment portfolio income attributable to the Plan, as a unit holder, and as calculated by bcIMC, and income from directly held investments. Income allocation is comprised of interest, dividends and other investment payments. Change in fair value is comprised of realized gains and losses on the disposal of investments and unrealized gains and losses on investments held at year end. All income earned within a pooled investment portfolio is reinvested within the portfolio. The Retirement Annuity Account is allocated a share of Basic Account investment income based on the annual rate of return of the Basic Account. (Note 10).

7. CONTRIBUTIONS

	2014				
	Basic Account	Inflation Adjustment Account	Retirement Annuity Account	Supplemental Benefits Account (Note 9)	Total
	($ Millions)				
Members' contributions					
Regular	$ 688	$ 94	$ -	$ 4	$ 786
Special agreements	-	-	1	-	1
Past service purchases	8	2	-	-	10
	696	96	1	4	797
Employers' contributions					
Regular	781	50	-	3	834
Special agreements	-	-	1	-	1
Past service purchases	6	1	-	-	7
Retired member group benefits	-	-	-	74	74
	787	51	1	77	916
Total Contributions	$ 1,483	$ 147	$ 2	$ 81	$ 1,713

	2013				
	($ Millions)				
Members' contributions					
Regular	$ 633	$ 90	$ -	$ 3	$ 726
Special agreements	-	-	4	-	4
Past service purchases	7	2	-	-	9
	640	92	4	3	739
Employers' contributions					
Regular	720	48	-	3	771
Special agreements	-	-	5	-	5
Past service purchases	5	1	-	-	6
Retired member group benefits	-	-	-	69	69
	725	49	5	72	851
Total Contributions	$ 1,365	$ 141	$ 9	$ 75	$ 1,590

Member and employer contributions are as defined under the pension plan rules. Members' past service purchases are voluntary contributions.

8. BENEFITS

	2014				
	Basic Account	Inflation adjustment Account	Retirement Annuity Account	Supplemental Benefits Account (Note 9)	Total
			($ Millions)		
Regular pension benefits	$ 1,114	$ -	$ -	$ 5	$ 1,119
Indexing - regular pension benefits	185	-	-	1	186
Termination and refund benefits	66	51	14	-	131
Death benefit payments	14	8	-	-	22
Disability pensions	2	-	-	-	2
	$ 1,381	$ 59	$ 14	$ 6	$ 1,460

	2013				
			($ Millions)		
Regular pension benefits	$ 1,029	$ -	$ -	$ 6	$ 1,035
Indexing - regular pension benefits	181	-	-	-	181
Termination and refund benefits	66	57	11	-	134
Death benefit payments	18	10	-	-	28
Disability pensions	2	-	-	-	2
	$ 1,296	$ 67	$ 11	$ 6	$ 1,380

9. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account funds certain supplemental benefits, for example, pension benefits which exceed the Tax Act limits for registered pension plans are paid through this account. Certain group benefit coverage has been provided for retired members through this account. The availability, type and level of retired member group benefit coverage are contingent upon the availability of funding for such benefits.

To the extent dental and extended health benefits are funded through the Supplemental Benefits Account (2014: $43 million; 2013: $41 million), they are funded from current contributions that would otherwise be employer inflation contributions. The amount of dental and extended health benefits that can be funded is limited to 0.8% of pensionable salaries. For 2014 this funding totaled 0.5% of pensionable salaries (2013: 0.5%).

To the extent medical service plan premiums are funded through the Supplemental Benefits Account (2014: $31 million; 2013: $27 million), they are funded from current contributions that would otherwise be employer basic contributions.

Retired member group benefits costs (shown on the Statement of Changes in Net Assets Available for Benefits) represent group benefit costs paid by the Plan less any premiums paid by retired members.

10. INVESTMENT AND ADMINISTRATION COSTS

	2014	2013
	($ Thousands)	
Investment management	$ 66,892	$ 54,075
Benefit administration	33,183	32,051
Other professional services	839	765
Board secretariat costs	625	637
Board remuneration and expenses	513	596
Actuarial	84	206
Audit	68	78
	$ 102,204	$ 88,408

bcIMC and the Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards. Investment management and benefit administration costs are approved by the Board.

Investment management costs represent amounts charged to recover both internal and external management costs incurred by bcIMC except those external management fees related to investments managed by an underlying external manager where management fees are embedded in the net assets of the respective investment.

Benefit administration costs represent amounts charged to recover benefit administration costs incurred by the Pension Corporation. Included in accounts payable is $3.0 million (2013: $2.8 million) due to the Pension Corporation related to these costs.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Other professional services costs include insurance and legal fees incurred directly by the Plan.

Board secretariat costs represent amounts directly incurred by the Board for costs associated with Board support.

Board remuneration and expenses represent amounts for trustee compensation and direct expenses.

11. ACCOUNT TRANSFERS

	2014			2013		
	Basic Account	Inflation Adjustment Account	Retirement Annuity Account	Basic Account	Inflation Adjustment Account	Retirement Annuity Account
	($ Millions)					
Present value of current indexing supplements	$ 128	$ (128)	$ -	$ 128	$ (128)	$ -
Indexing of deferred pensions	8	(8)	-	8	(8)	-
Pensions purchased from Retirement Annuity Account	13	5	(18)	12	5	(17)
	$ 149	$ (131)	$ (18)	$ 148	$ (131)	$ (17)

The IAA is a separate account that is maintained for funding current and future cost-of-living adjustments. The IAA is funded through a portion of ongoing contributions from employers and members (Note 1d), from investment income earned and from excess investment return earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, if pension payments are adjusted for the current cost-of-living adjustment, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current cost-of-living adjustment. The Board annually considers all relevant factors and its IAA funding policy to determine if a cost-of-living adjustment will be granted on pensions in pay and the amount of the cost-of-living adjustment, if any.

When a deferred pension is paid, the present value of the cost-of-living adjustments during the deferral period is transferred from the IAA to the Basic Account. Approximately $89 million (2013: $85 million) of the current IAA balance is for cost-of-living adjustments intended for deferred pensions, but not yet transferred to the Basic Account.

When investment earnings in the Basic Account are in excess of the actuarial assumption regarding investment rates of return the excess investment returns are transferred from the Basic Account to the IAA. There have been no excess investment return transfers to the IAA for the years ended December 31, 2002 through 2014. Excess investment returns are based on investment income earned on those Basic Account assets required for pensions currently being paid, approximately $13 billion of assets for 2014 (2013: $12 billion). The excess investment rate of return is determined by taking the difference between the actual five-year annualized market rate of return (9.9%) and the rate of return used by the actuary (6.5%) in valuing the Plan's liabilities. The calculated excess investment return rate of return for 2014 was 3.4% (2013: 3.3%) resulting in an excess investment return amount of $435 million (2013: $394 million).

Also included in the cumulative negative excess investment return is an amount determined by applying the five-year annualized market rate of return to the fiscal year opening balance. This component of the calculation is the opportunity cost related to the opening cumulative return deficit.

11. ACCOUNT TRANSFERS (continued)

The cumulative negative excess investment return amount of $652 million, arising from the years 2002 through 2014, will be offset against future positive excess investment return amounts before positive excess investment return transfers would occur.

Negative Excess Investment Return	2014	2013
	($ Millions)	
Cumulative negative excess investment return, beginning of year	$ (989)	$ (1,260)
Interest applied to beginning of year amount	(98)	(123)
Excess investment return	435	394
Cumulative negative excess investment return, end of year	$ (652)	$ (989)

A separate Retirement Annuity Account is maintained to record additional contributions by employers and members under special agreements. If a member is entitled to, and chooses to purchase additional pension benefits at retirement, monies are transferred from the Retirement Annuity Account to the Basic and the IAA to fund the additional benefits.

12. COMMITMENTS

The Plan participates in private placement and international real estate pools that are managed by bcIMC. As at December 31, 2014, the Plan's share of commitments for future investment contracts in these pools over the next several years is approximately $1.9 billion (2013: $1.4 billion).

13. FINANCIAL INSTRUMENTS

The Board approves the long-term asset mix policy for investment assets through its Statement of Investment Policies and Procedures (SIPP) and oversees the management of these assets through the Board's investment management agent, bcIMC. The SIPP requires diversification of investments within asset classes, sets guidelines on investment categories and limits the exposure to individual investments and counterparties.

Significant risks are regularly monitored and managed by bcIMC and actions are taken when appropriate, according to the Plan's SIPP. In addition, these risks are reviewed periodically with the Board.

13. FINANCIAL INSTRUMENTS (continued)

a) Fair Value

i) Fair Value Hierarchy:

Fair value measurements of the investment assets and liabilities are based on inputs from one or more levels of a fair value hierarchy. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities. The three levels of the fair value hierarchy are:

- Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Plan's investments are carried at fair value in the financial statements. The following table details the classification of the Plan's investments based on the fair value hierarchy as at December 31:

	2014			
	Level 1	Level 2	Level 3	Total
	($ Millions)			
Pooled Fund Units	$ 2,093	$ 33,444	$ 4,311	$ 39,848
Direct investments	-	4	359	363
	$ 2,093	$ 33,448	$ 4,670	$ 40,211

	2013			
	($ Millions)			
Pooled Fund Units	$ 378	$ 31,493	$ 3,862	$ 35,733
Direct investments	-	1	290	291
	$ 378	$ 31,494	$ 4,152	$ 36,024

Other financial instruments, which are carried at amortized cost in the financial statements, consist of receivables, payable for purchase of investment, accounts payable and accrued expenses. The fair values of these financial instruments approximate their carrying values due to their short term nature. These financial instruments are classified as level 2 in the fair value hierarchy because while prices are available, there is no market for these instruments.

In 2014 the classification of financial instruments for purposes of determining the fair value hierarchy was changed from investment types (Note 3) to whether the investments are held as units of pooled funds or held directly by the Plan. The 2013 comparative numbers have been reclassified to conform to the new presentation.

During 2014 and 2013, there were no significant transfers of investments between Levels.

13. FINANCIAL INSTRUMENTS (continued)

a) Fair Value (continued)

i) Fair Value Hierarchy (continued):

The following table reconciles the Plan's Level 3 fair value measurements:

	2014		
	Pooled fund units	Direct Investments	Total
	($ Millions)		
Balance, beginning of year	$ 3,862	$ 290	$ 4,152
Net gain included in investment income	95	66	161
Purchases	1,061	22	1,083
Settlements	(707)	(19)	(726)
Balance, end of year	$ 4,311	$ 359	$ 4,670
Total unrealized gains (losses) included in investment income	$ (41)	$ 65	$ 24

	2013		
	($ Millions)		
Balance, beginning of year	$ 3,643	$ 232	$ 3,875
Net gain included in investment income	240	29	269
Purchases	797	36	833
Settlements	(818)	(7)	(825)
Balance, end of year	$ 3,862	$ 290	$ 4,152
Total unrealized gains included in investment income	$ 105	$ 29	$ 134

13. FINANCIAL INSTRUMENTS (continued)

a) Fair Value (continued)

ii) Valuation Models:

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

bcIMC uses widely recognized valuation methods for determining the fair value of common and more simple financial instruments such as investments in pooled funds, where fair value is based on the underlying net asset value of the respective pooled fund as determined by the underlying fund manager. Observable prices and model inputs are usually available in the market for listed equity and debt securities, simple derivatives such as forward currency contracts, and for pooled funds. The availability of observable market prices and model inputs reduces the need for management judgment and estimation and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the financial instrument and is subject to change based on specific events and general conditions in the financial markets.

For more complex financial instruments, such as direct private placement investments held by the Plan, bcIMC uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of judgment and estimation in the determination of fair value. bcIMC's judgment and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows of the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that bcIMC believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Plan and the counterparties where appropriate.

iii) Valuation Framework:

bcIMC has an established framework with respect to the measurement of fair values of financial instruments. Where possible, for direct private placement investments held by the Plan, external, independent valuation specialists are engaged annually to assist in the determination of fair value. In those circumstances where bcIMC is reliant on the third party manager for the determination of fair value, bcIMC reviews the appropriateness of such valuations using audited financial statements of the underlying investments, where available, and other information from the underlying third party manager or other sources.

13. FINANCIAL INSTRUMENTS (continued)

a) Fair Value (continued)

iii) Valuation Framework (continued):

In addition, bcIMC applies the following specific controls in relation to the determination of fair values:

- Verification of observable pricing inputs;
- Appraisal of domestic real estate properties once every ten to eighteen months by accredited independent appraisers;
- Analysis and investigation of significant valuation movements; and
- Review of unobservable inputs and valuation adjustments.

When third party information, such as broker quotes or pricing services, is used to measure fair value, then bcIMC assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations are appropriate. This includes:

- Verifying that the broker or pricing service is approved by bcIMC for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar financial instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the financial instrument subject to measurement; and
- If a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

13. FINANCIAL INSTRUMENTS (continued)

a) Fair Value (continued)

iv) Significant Unobservable Inputs Used In Measuring Fair Value:

The following table sets out information about significant unobservable inputs used at year-end in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

2014 *($ millions)*

Description	Fair Value	Valuation technique	Unobservable input	Amount / Range	Sensitivity to change in significant unobservable input
					The estimated fair value would increase if:
Pooled fund units	$ 4,311	Net asset value	Net asset value	$ 4,311	The net asset value increased
Direct private placements	$ 258	Adjusted discounted cash flows	Discount rate	8.7% to 9.7%	The discount rate was lowered
Direct private agriculture investments	$ 101	Adjusted net asset value	Fair value adjustment	$ 101	Fair value adjustment increased

2013 *($ millions)*

Description	Fair Value	Valuation technique	Unobservable input	Amount / Range	Sensitivity to change in significant unobservable input
					The estimated fair value would increase if:
Pooled fund units	$ 3,862	Net asset value	Net asset value	$ 3,862	The net asset value increased
Direct private placements	$ 225	Adjusted discounted cash flows	Discount rate	9.5% to 10.5%	The discount rate was lowered
Direct private agriculture investments	$ 65	Adjusted net asset value	Fair value adjustment	$ 11	Fair value adjustment increased

13. FINANCIAL INSTRUMENTS (continued)

a) Fair Value (continued)

iv) Significant Unobservable Inputs Used In Measuring Fair Value (continued):

- Net Asset Value:

Net asset value is determined by bcIMC based on the fair value of assets less liabilities. Such investments are closed funds with significant restrictions on redemptions and accordingly, bcIMC is unable to dispose of the pooled fund investment until the maturity or wind-up and liquidation of the respective pooled fund. In such cases, it is the Plan's policy to categorize the pooled fund investment as Level 3 within the fair value hierarchy.

- Discount Rate:

Represents the discount rate applied to the expected future cash flows of the direct private placement investment. For the discount rates used, the underlying investment manager assesses both the risk premium and the appropriate risk-free rate based on the economic environment in which the investee entity operates. The discount rate is adjusted for such matters as liquidity differences, credit and market factors. The estimated future cash flows are then discounted using the discount rate determined. Cash flows used in the discounted cash flow model are based on projected cash flows or earnings of the respective investee entity.

- Fair Value Adjustments:

Represents adjustments applied to the financial statements of the direct private agricultural investments. The financial statements of the direct private agricultural investments were prepared at cost. The investment manager determines the necessary adjustments to present the investments at fair value based on judgment, on an investment by investment basis, and through review of information received from underlying investments and other sources.

13. FINANCIAL INSTRUMENTS (continued)

a) Fair Value (continued)

v) Effects Of Unobservable Input On Fair Value Measurement:

Although bcIMC believes that their estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects on net assets attributable to holders of redeemable units.

	2014		2013	
	Favorable	Unfavorable	Favorable	Unfavorable
	($ Millions)		($ Millions)	
Pooled fund units	$ 441	$ (441)	$ 393	$ (393)
Direct investments	20	(20)	17	(17)
	$ 461	$ (461)	$ 410	$ (410)

The pooled fund units and direct private agriculture investments were valued based on information received from bcIMC, the manager of the respective investments. The fair value of these investments fluctuates in response to changes to specific assumptions for these particular investments, as determined by bcIMC. The favorable and unfavorable effects of reasonably possible alternative assumptions for the valuation of pooled fund units and direct private agriculture investments has been calculated by adjusting the respective underlying net asset value by 10%.

For direct private placement investments, bcIMC engages third party independent valuators to estimate the fair market value. The valuators produce comprehensive reports for each applicable investment. The favorable and unfavorable effects of reasonably possible alternative assumptions for the valuation of direct investments have been calculated by recalibrating the model values using unobservable inputs based on the upper and lower threshold of the respective investment's range of possible estimates.

13. FINANCIAL INSTRUMENTS (continued)

b) Market Risk

Market risk is the risk that the fair values of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. Market risk is comprised of foreign currency risk, interest rate risk, and price risk. Market risk is reduced through asset class diversification, diversification within each asset class and credit quality requirements for investments.

i) Foreign Currency Risk

Foreign currency exposure arises from foreign currency denominated investments held directly or indirectly through pooled investment portfolios. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. bcIMC has currency exposure management programs under which it economically hedges foreign currency exposure through the use of foreign currency forward contracts. A foreign currency forward contract is a contractual obligation either to buy or sell a specified amount of foreign currency at a predetermined future date and exchange rate. The Plan's total direct and indirect currency exposure, the impact of economically hedging and trading activities and its net exposure as at December 31 are as follows:

	2014 Fair Value By Currency				2013 Fair Value By Currency			
(Millions Cdn dollar equivalent)	Total Exposure	Economic Hedging	Net Exposure	% of Total	Total Exposure	Economic Hedging	Net Exposure	% of Total
United States	$ 8,762	$ 1,485	$ 7,277	50%	$ 8,726	$ 335	$ 8,391	54%
Other Pacific	3,189	20	3,169	22%	2,565	2	2,563	16%
Emerging markets	1,591	-	1,591	11%	1,099	-	1,099	7%
United Kingdom	894	125	769	5%	1,061	36	1,025	6%
Japan	764	1	763	5%	801	1	800	5%
Other Europe	672	1	671	5%	744	2	742	5%
Euro Countries	1,313	1,097	216	2%	1,777	724	1,053	7%
	$ 17,185	$ 2,729	$ 14,456	100%	$ 16,773	$ 1,100	$ 15,673	100%

In addition to the investments in foreign currencies, the Plan held $22.9 billion (2013: $19.0 billion) of investments denominated in Canadian dollars. The net foreign currency exposure represents 36% (2013: 44%) of the Plan's total investments.

Included in these totals as at December 31, 2014 and 2013, are net accounts payable for outstanding sales and purchases of investments.

As at December 31, 2014, if the Canadian dollar strengthened or weakened by 10% in relation to all foreign currencies, with all other factors remaining constant, net assets would have decreased or increased by approximately $1.4 billion (2013: $1.6 billion).

13. FINANCIAL INSTRUMENTS (continued)

b) Market Risk (continued)

ii) Interest Rate Risk

Interest rate risk is the risk that the Plan's investments will change in fair value due to future fluctuations in market interest rates. The risk arises primarily on interest-bearing financial instruments held in short-term investments, fixed income investment pools (bonds and mortgages) and Canadian real return bonds held directly by the Plan. The risk of adverse changes in interest rates is reduced within the underlying investment pools through management of duration in exposure to fixed income securities, the use of floating rate notes and general diversification by security type and geographic region.

The terms to contractual maturity of interest-bearing financial instruments held directly and through pooled investment portfolios, as at December 31, are as follows:

	Terms to maturity				2014
Interest-bearing financial instruments	**Within**	**1 to 5**	**>5 to 10**	**Over 10**		**Effective Yield**
($ Millions)	**1 Year**	**Years**	**Years**	**Years**	**Total**	**to Maturity**
Short-term	$ 2,094	$ 214	$ -	$ -	$ 2,308	1.28%
Bonds	1,111	818	1,043	1,922	4,894	2.22%
Real return bonds*	9	5	177	1,118	1,309	0.63%
Mortgages	345	638	35	-	1,018	2.83%
	$ 3,559	$ 1,675	$ 1,255	$ 3,040	$ 9,529	
						2013
Short-term	$ 430	$ 848	$ 3	$ -	$ 1,281	1.45%
Bonds	71	1,416	1,504	1,298	4,289	1.92%
Real return bonds*	5	5	217	934	1,161	0.70%
Mortgages	139	765	85	-	989	3.13%
	$ 645	$ 3,034	$ 1,809	$ 2,232	$ 7,720	

* Effective yield to maturity percentages are only the real return, inflation has not been considered

As at December 31, 2014, if the prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables remaining constant, the fair value of interest-bearing financial instruments would have decreased or increased by approximately $606 million (2013: $541 million).

13. FINANCIAL INSTRUMENTS (continued)

b) Market Risk (continued)

iii) Price Risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency risk or interest rate risk) whether those changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. The Plan's investments are subject to price risk through its equity investments and private market investments held directly and through pooled investment portfolios. bcIMC moderates this risk by diversifying its investments across asset classes based on criteria established in the SIPP. As at December 31, 2014, if equity prices increased or decreased by 10% with all other factors remaining constant, net assets would have increased or decreased by approximately $3.1 billion (2013: $2.8 billion).

c) Credit Risk

Credit risk is the risk that a loss may occur from the failure of another party to perform according to the terms of a contract. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the market value of the debtors' obligations. Credit risk is managed by establishing specific investment criteria, such as minimum credit ratings for investees and counterparties and maximum concentration limits with given counterparties.

Credit risk ratings on financial instruments (short-term investments, bonds and mortgages) held directly and through pooled investment portfolios are as follows:

	2014		2013	
Credit Rating	*($ Millions)*			
AAA/AA	$ 6,272	66%	$ 4,981	64%
A	1,668	17%	1,238	16%
BBB	571	6%	512	7%
	8,511	89%	6,731	87%
Unrated	1,018	11%	989	13%
	$ 9,529	100%	$ 7,720	100%

The ratings used are defined by the Standard & Poor's rating agency. Obligations rated AAA/AA have the highest rating assigned. The lenders' capacity to meet its financial commitment on the obligation is very strong. Bonds assigned an A or BBB rating are weaker with the BBB rating denoting an obligation with adequate protection parameters. Unrated financial instruments consist primarily of mortgages which are secured by real estate.

Credit exposure also exists for members' and employers' contributions receivable and other non-investment assets directly held by the Plan totaling $65 million (2013: $59 million) and for the due from sale of investments of $13 million (2013: nil).

13. FINANCIAL INSTRUMENTS (continued)

d) Liquidity Risk

Liquidity risk is the risk of not being able to meet the Plan's cash requirements in a timely and cost effective manner. Expenditures relate primarily to pensions, termination and refund benefits and investment and administration fees. The Plan's approach to mitigating liquidity risk is to forecast its cash requirements over the near and long term to determine whether sufficient funds are available. The Plan's primary source of liquidity is income generated from the Plan's investments and employer and employee contributions. bcIMC primarily invests in pooled funds that hold securities that are traded in active markets and can be readily sold and where the pooled fund units can thereby be redeemed to fund cash requirements. Accounts payable of $27 million (2013: $20 million) and payable for purchase of investments of $168 million (2013: $222 million) are generally due within one month.

14. CONTINGENCIES

As a crown agent pursuant to its enabling legislation, bcIMC is immune from taxation under the *Excise Tax Act*, in respect of supplies to its pooled investment portfolios. In 2009, bcIMC was advised that the Canadian federal government was in discussions with the British Columbia provincial government regarding the application of goods and services tax and/or harmonized sales tax (GST/HST) to supplies provided by bcIMC to the pooled investment portfolios. That discussion has been ongoing for the past five years. In December 2013 bcIMC filed a petition in the Supreme Court of British Columbia seeking a declaration confirming its crown immunity in respect of GST/HST relating to supplies provided to its pooled investment portfolios. bcIMC management is of the opinion that the Court will not deny bcIMC the ability to rely on its statutory crown immunity. However, if the Supreme Court determines that supplies to bcIMC's pooled investment portfolios are taxable under the Excise Tax Act, bcIMC estimates the cumulative GST/HST owing for the period from April 1, 2010 to December 31, 2014 to be in the range of $50 million to $60 million. This amount would then be recoverable from the pools. The impact on the net asset value of pooled investment portfolio units held by the Plan, should GST/HST be payable, is estimated to be $17 million to $21 million.

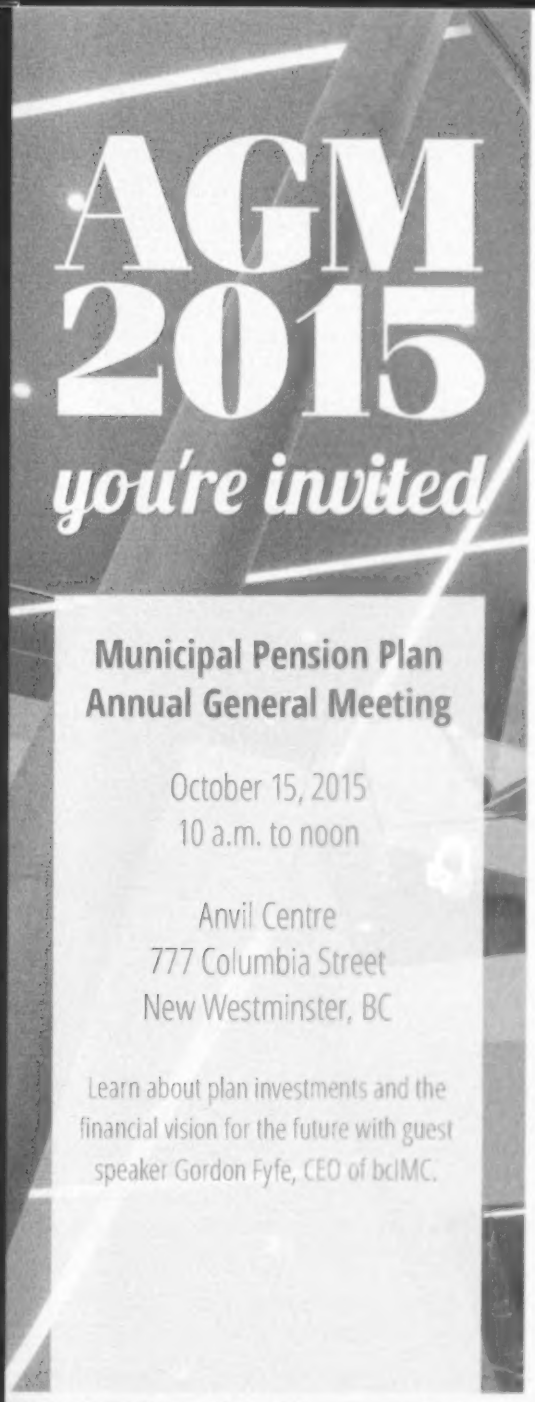
As at December 31, 2014 this matter is unresolved.

15. CAPITAL DISCLOSURES

Capital is defined as the funded status (surplus or deficit) of the Plan as determined by the actuary (Note 5). The Plan's objective for managing capital is to ensure that the assets of the Plan are invested prudently and effectively and with contributions adequate to meet the obligations of the Plan. Management of the Plan's funded status is achieved by adjusting member and employer contribution rates, through implementation of the SIPP that affects the earnings of the Plan and in the case of the IAA, by changing the benefits paid. The Board has a funding policy that outlines the principles that provide guidance in managing this process. The investment performance of the Plan assets is reviewed by the Board on a regular basis compared to relevant industry benchmarks. Benefit entitlement is based on the provisions of the Agreement and the pension plan rules. In accordance with the PBSA, funding deficits must be funded over a period not to exceed 15 years.

An actuarial valuation must be prepared at least once every three years. The latest actuarial valuation for funding purposes was prepared as at December 31, 2012, and has three components; the Basic non-indexed benefits (Note 5a) and by considering the valuation of the entire Plan, the non guaranteed IAA benefits (Note 5b) and the retirement annuity account (Note 1d). The next full actuarial valuation will be at December 31, 2015, for inclusion in the December 31, 2016, financial statements.

The Act and the Board's funding policy require that contribution rates comply with the going concern requirements of the PBSA. With the contributions rate increase effective July 1, 2014, the Plan remains compliant.



Municipal Pension Plan Annual General Meeting

October 15, 2015
10 a.m. to noon

Anvil Centre
777 Columbia Street
New Westminster, BC

Learn about plan investments and the financial vision for the future with guest speaker Gordon Fyfe, CEO of bcIMC.

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